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DEPARTMENT OF AGRICULTURE APPROPRIATIONS FOR 1959

HEARINGS

BEFORE THE

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON DEPARTMENT OF AGRICULTURE AND RELATED AGENCIES APPROPRIATIONS

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ROSS P. POPE, *Staff Assistant to the Subcommittee*

PART 1

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GENERAL ECONOMIC OUTLOOK
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- OFFICE OF INFORMATION
- ADMINISTRATION OF MILK MARKETING AGREEMENTS
- SOIL BANK PROGRAMS, 1957 (PARTS I AND II)
- WATERSHED PROTECTION AND FLOOD PREVENTION PROGRAM

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DEPARTMENT OF AGRICULTURE APPROPRIATIONS FOR 1959

MONDAY, FEBRUARY 3, 1958.

THE BUDGET FOR THE DEPARTMENT OF AGRICULTURE

WITNESSES

RALPH S. ROBERTS, ADMINISTRATIVE ASSISTANT SECRETARY OF AGRICULTURE
CHARLES L. GRANT, DIRECTOR OF FINANCE AND BUDGET OFFICER
LEE A. DASHNER, DEPUTY DIRECTOR OF FINANCE

Mr. WHITTEN. The committee will come to order.

We are pleased to recognize a new member of the committee, Mr. Santangelo, from New York. It is a pleasure to have him on the committee.

Mr. SANTANGELO. Thank you very much.

While I have been a city dweller, I may surprise some of you because I did actually come from a suburban area, and have a fair bit of knowledge on problems having to do with agriculture.

Mr. ANDERSEN. I might say that from what I know of Mr. Santangelo, he is considered to be a very reasonable man, and I want to join with you in welcoming him as a member of this subcommittee. I hope that our relations will be the best.

Mr. SANTANGELO. Thank you very much.

Mr. WHITTEN. We will now begin the consideration of the budget request for the operations of the Department of Agriculture in the next fiscal year, incident to which we will review the agricultural situation, and the work of the various agencies of the Department.

SITUATION OF THE AMERICAN FARMER

In all my experience here I have never heard from as many Members of Congress, or received as many letters, expressing concern about the very serious plight of the American farmer.

I think it would be fitting at this point to read into the record, as evidence of this situation, a letter which I received and which is representative of the general situation.

This letter is dated January 29, 1958, and comes from a lady in my district. This lady's husband is one of the larger operators, so certainly it is not a case of not having a good economic farm unit. He has had a successful 20 years in farming, and has very good land, and proven business ability in many fields. I would like the committee to listen to this, if you will. It is addressed to me:

I am sure you didn't realize just how true your remarks about the Department of Agriculture's overlooking the fact that the fall in farm income has become a serious threat to the entire economy.

I wish you could have a copy of this letter placed on the desk of every Senator and Representative in the entire Congress, with a note that it is from an average farmer's wife, and is true all over the farm area.

We need a new car, the one we have is years old; a new farm pickup, now 5 years old; a 2-ton heavy truck, 7 years old; new tractors, all over 6 years old, as well as disks, etc. Our refrigerator is 10 years old; stove 12 years old; television set, 6½ years old. Then there is the problem of clothes.

I was in the shoe department in a Memphis store recently, and one of the salesmen told me not only their department but the entire store was feeling a difference in their business.

This is only the beginning, and people have just hoped things would be better. Now they—and this includes us—can't repay what was lost in the farming operation last year because of insects, rains, and the high cost of everything there is to buy.

We don't even think about being able to take a trip, and this is also true of our friends. There isn't a single new car in all of south Panola County, except that of the daughter of the local dealer.

This sounds like a joke, but it is all too true.

For a more serious note, my nieces at the Mississippi State College for Women say that many girls can't return at the end of this semester, and our daughter says the same is true at the University of Mississippi, and we are not sending her on what we make now.

Another thing that concerns me is the state of the tenants or renters. We can't help them, and the welfare office (now this is another story sometime) can't do enough; so the grocery stores can't sell much to them. They get sick and can't pay the doctors' bills, and this is happening, too, and on and on—just a vicious circle.

I certainly do not know the answer, but I think you folks do, if they will listen to you.

Isn't there someone we can turn to who can make the Department and the Secretary understand, or does he just have a closed mind?

Sincerely yours, and with best wishes.

She signs her name, and adds this postscript:

My husband has just come in and laughed at me over my letter, but admits that it is entirely true and wishes there was something that you could do.

Now, that is typical of the mail of every Member of Congress from the farm area, and I thought this hearing might well start with that picture. I never have had the serious concern that I have now about agriculture generally.

Mr. ANDERSEN. Mr. Chairman, that letter reflects to a great degree the situation in my district, southwestern Minnesota. There, of course, the weather enters the picture very severely, but on top of that my dairy farmers are faced with a further decline in their receipts from their dairy products, and the picture right today is pretty bleak when you consider what the farmer has to pay in comparison to what he receives for what he produces, and then I want to say parenthetically, "if he produces it, due to weather and other adverse elements."

Mr. WHITTEN. I also serve on the Military Appropriations Subcommittee. I made a speech last week in which I pointed out the

terrific waste that is evidenced in that Department. I pointed out the billions and billions of dollars which we are spending in the name of "defense," which is really pump priming for industry and labor. Yet I note where, in his New Orleans speech, a week or so ago, the Secretary said that the Government had spent billions for farmers in the last few years and made the significant statement that, "Wouldn't that buy a lot of missiles?"

The Department of Defense will have $8 billion that it won't even have obligated the 1st of July 1958. I pointed out in that speech innumerable places where they have wasted money without end.

Then I could not help but wonder where we would be if the Government had not spent these amounts on farm programs. Of course, I have my own personal views as to how much of that might have been saved to the best interests of all concerned. But, be that as it may, that money has been received by those connected with agriculture in one way or another, and with the farm picture as bad as it is now, if they had not received that much, their situation would be that much worse.

Mr. Grant, all of this is not your fault. But I want the hearings to open with an indication of the serious concern that we have on this committee for this problem.

Mr. MARSHALL. Mr. Chairman, might I interrupt at this point?

Mr. WHITTEN. Surely, Mr. Marshall.

REPORT ON LATIN AMERICAN TRIP

Mr. MARSHALL. Mr. Chairman, last fall members of your committee made a trip into South America. We have a report of that trip which I would like to ask to be inserted at the appropriate point in the proceedings.

(The report may be found on p. 128.)

SPECIAL STUDY ON SUBSIDIES

Mr. MARSHALL. Also, Mr. Chairman, I have made a study concerning subsidies, with the help of the Library of Congress and our subcommittee staff, and I would like permission to insert it in the record at the proper point.

(The study may be found on p. 152.)

Mr. WHITTEN. We will be pleased to have both of those reports included in the record at the proper place.

APPROPRIATIONS, 1958 AND ESTIMATES, 1959

At this point, pages 4 through 7 of the committee print will be inserted in the record.

(The information is as follows:)

Regular activities (annual appropriations)

Item	Appropriations, 1958	Budget estimates, 1959	Budget estimates, compared with 1958 appropriations
Agricultural Research Service:			
Salaries and expenses:			
Research	$57,794,890	$60,744,890	+$2,950,000
Plant and animal disease and pest control	30,082,000	42,132,000	+12,050,000
Meat inspection	16,826,000	17,326,000	+500,000
Total	104,702,890	120,202,890	+15,500,000
State experiment stations:			
Payments to States, Hawaii, Alaska, and Puerto Rico	30,353,708	30,353,708	
Penalty mail	250,000	250,000	
	30,603,708	30,603,708	
Total, Agricultural Research Service	135,306,598	150,806,598	+15,500,000
Extension Service:			
Payments to States, Hawaii, Alaska, and Puerto Rico	50,715,000	50,715,000	
Retirement costs for extension agents	5,260,000	5,479,375	+219,375
Penalty mail	2,164,000	1,868,480	−295,520
Federal Extension Service	2,096,540	2,096,540	
Total, Extension Service	60,235,540	60,159,395	−76,145
Farmer Cooperative Service	578,000	578,000	
Soil Conservation Service:			
Conservation operations	72,545,000	72,280,000	−265,000
Watershed protection	25,500,000	14,000,000	−11,500,000
Flood prevention	13,220,000	13,220,000	
Water conservation and utilization projects	350,000	335,000	−15,000
Great Plains conservation program	10,000,000	10,000,000	
Total, Soil Conservation Service	121,615,000	109,835,000	−11,780,000
Agricultural Conservation Program Service:			
Agricultural conservation program	212,000,000	235,000,000	+23,000,000
Emergency conservation measures	20,000,000		−20,000,000
Total, Agricultural Conservation Program Service	232,000,000	235,000,000	+3,000,000
Agricultural Marketing Service:			
Marketing Research and Service:			
Marketing research and agricultural estimates	14,116,700	14,095,000	−21,700
Marketing services	15,574,900	21,197,000	+5,622,100
	29,691,600	35,292,000	+5,600,400
Payments to States, Territories, and possessions	1,160,000	1,160,000	
School lunch program	100,000,000	100,000,000	
Total, Agricultural Marketing Service	130,851,600	136,452,000	+5,600,400
Foreign Agricultural Service	4,002,300	4,002,300	
Commodity Exchange Authority	832,000	832,000	
Soil-bank programs:			
Conservation reserve	162,940,000	350,000,000	+187,060,000
Acreage reserve	600,000,000	330,000,000	−270,000,000
Total, soil-bank programs	762,940,000	680,000,000	−82,940,000
Commodity Stabilization Service:			
Acreage allotments and marketing quotas	40,715,000	39,715,000	−1,000,000
Sugar Act program	67,662,500	76,000,000	+8,337,500
Total, Commodity Stabilization Service	108,377,500	115,715,000	+7,337,500
Federal Crop Insurance Corporation: Operating and administrative expenses	6,376,700	6,376,700	
Rural Electrification Administration: Salaries and expenses	9,030,950	9,019,000	−11,950
Farmers' Home Administration: Salaries and expenses	29,089,500	29,089,500	
Office of the General Counsel	2,943,000	3,043,000	+100,000
Office of Secretary	2,660,660	2,660,660	
Office of Information	1,367,500	1,367,500	
Library	772,000	772,000	
Total, regular activities	1,608,978,848	1,545,708,653	−63,270,195

Loan authorizations

Item	Appropriations, 1958	Budget estimates, 1959	Budget estimates, compared with 1958 authorizations
Rural Electrification Administration:			
Electrification	$179,000,000	$150,000,000	−$29,000,000
Telephone	60,000,000	56,000,000	−4,000,000
Total, Rural Electrification Administration	239,000,000	206,000,000	−33,000,000
Farmers' Home Administration:			
Farm ownership and farm housing	24,000,000	(1)	(1)
Farm operation (production and subsistence)	180,000,000	(1)	(1)
Soil and water conservation	5,500,000	(1)	(1)
Total, Farmers' Home Administration	209,500,000	175,000,000	−34,500,000
Total, loan authorizations	448,500,000	381,000,000	−67,500,000

[1] Budget proposes to appropriate lump-sum, amount to be used for all categories of loans at discretion of Secretary.

Corporations

Item	Appropriations, 1958	Budget estimates, 1959	Budget estimates, compared with 1958 appropriations
Commodity Credit Corporation:			
Restoration of capital impairment	$1,239,788,671	$1,760,399,886	+$520,611,215
Administrative expense limitation	(35,398,000)	(36,100,000)	(+702,000)
Total, corporations	1,239,788,671	1,760,399,886	+520,611,215

Special activities

Item	Appropriations, 1958	Budget estimates, 1959	Budget estimates, 1958 compared with 1958 appropriations
Reimbursements to Commodity Credit Corporation:			
Animal disease eradication	$18,581,660	(1)	(1)
Grading and classing	80,449	(1)	(1)
Special commodity disposal programs	824,414,129	(1)	(1)
Total, special activities	843,076,238		−$843,076,238

[1] No estimates included in budget for 1959. Amounts totaling $1,745,586,233 proposed to be submitted as 1958 supplemental estimates.

Permanent authorizations

Item	Authorizations, 1958	Budget estimates, 1959	Increase (+) or decrease (−)
Agricultural Marketing Service:			
Removal of surplus agricultural commodities	$220,878,158	$232,500,000	+$11,621,842
Perishable Agricultural Commodities Act fund	662,000	679,000	+17,000
Total, Agricultural Marketing Service	221,540,158	233,179,600	+11,639,442
Commodity Stabilization Service; National Wool Act	29,671,679	30,000,000	+328,321
Total, permanent appropriations	251,211,837	263,179,600	+11,967,763

Related agencies

Item	Authorizations, 1958	Budget estimates, 1959	Budget estimates, compared with 1958 authorizations
Limitation on administrative expenses:			
Farm Credit Administration	$2,200,000	$2,125,000	−$75,000
Federal intermediate credit banks	3,375,000	1,693,000	−1,682,000
Total, Farm Credit Administration	5,575,000	3,818,000	−1,757,000

Mr. WHITTEN. Mr. Grant, we are very happy to have you before the committee. We certainly have a very high regard for you. We first had Mr. Jump, and we did not think we could improve on him. When he left we had Mr. Roberts, who also did a good job, and then Joe Wheeler; then we come to you. Each has trained the other, so through the years we feel, insofar as the budget is concerned—and insofar as this committee is concerned—there has been a continuous line of fine budget officers who have done a splendid job. My hope in this hearing is that anything I might say is not to be understood to reflect in any way on you folks.

Mr. GRANT. Thank you, Mr. Chairman. I appreciate those kind remarks. This is my first appearance here as budget officer and I want you to know that I intend, to the very best of my ability, to do the best job I can. I hope that I can do the same kind of work that my predecessors have done before me.

I want to introduce Mr. Lee A. Dashner, who succeeded me as Deputy Director of Finance. We in the Office of Budget and Finance will do everything we can to facilitate the work of the committee and to provide any additional information that you may desire for your consideration of the Department's estimates.

Mr. WHITTEN. We are pleased to have you, Mr. Dashner; and, as I have indicated here, we expect you to get proper training.

Mr. DASHNER. I appreciate that opportunity. I have had some experience in budget work, and I do expect to benefit by the training of these gentlemen.

GENERAL STATEMENT OF BUDGET OFFICER

Mr. GRANT. Mr. Chairman, I thought we might start off with a general discussion, or review, of the budget for the Department for 1959. My comments will be somewhat brief. I am sure you will be going into all of these items in more detail, later in the hearings.

You have before you a copy of table 1 which we have prepared.

The first segment of this table is called "Annual Appropriations for Regular Activities." It compares the budget estimates for 1959 with the appropriations for fiscal year 1958. I would like to review briefly the major or principal changes for you.

Mr. WHITTEN. All right. You hit the highlights. We will take up each item in detail when the other witnesses are before us later.

Mr. GRANT. Before I discuss the individual items, I would just like to say that the increases and decreases for a few of the items shown in the final column of this table will vary slightly from the actual increases and decreases in the explanatory notes. That is due to the fact

that in a few items there were some funds reserved for savings in the current year which in the justifications were treated as adjustments in the base.

AGRICULTURAL RESEARCH SERVICE

The first item under the Agricultural Research Service reflects a net increase of $2,950,000 for research, including of a decrease of $1,550,000 of funds provided in 1958 for the construction of laboratories, and an increase of $4,600,000 for utilization research, for finding new and expanded uses for agricultural commodities.

The 1959 budget proposes an overall increase of $5 million in direct appropriations for this purpose, $400,000 of which is in the Forest Service. In addition, the budget contemplates that as much as an additional $5 million of foreign currencies, generated under Public Law 480 and allocated to the Department for the development of foreign markets, will be used for utilization research overseas to help find new and expanded uses for agricultural commodities.

There is also a proposed redirection of $805,000 within the appropriation for ARS, from "Farm research" to "Utilization research."

The increase of $12,550,000 for the item entitled "Plant and animal disease and pest control and meat inspection" is primarily due to an increase of $10,861,000 in the direct appropriation for the brucellosis-eradication program. You will recall that Congress enacted legislation, which has been in effect for about 4 years, authorizing the transfer of funds from the Commodity Credit Corporation for this program. This legislation expires on June 30, 1958, and in lieu of extending that legislation it is contemplated that funds will be appropriated directly for this program.

The Agricultural Research Service would have a total of $15 million avaliable for brucellosis eradication in 1959, compared with approximately $21,500,000 being used for that purpose in fiscal year 1958.

EXTENSION SERVICE

The net decrease of $76,000 for the Extension Service represents an adjustment in funds for retirement costs for Extension agents and penalty mail.

SOIL CONSERVATION SERVICE

The decrease of $265,000 under "Conservation operations" of the Soil Conservation Service represents a decrease of $81,000 for the transfer of certain General Services Administration leasing costs from the Department to a direct appropriation of the General Services Administration. The other $184,000 represents a reserve for savings established in fiscal year 1958.

The item for watershed protection reflects a decrease of $11,500,000 in new appropriations. However, it should be pointed out that, because of balances from prior years, the actual program level for installation of works of improvement on Public Law 566 watersheds would be increased by $8 million. Because of the completion of work on many of the pilot watersheds, a decrease in needs for those watersheds is proposed. Overall, there is a net increase of about $3 million anticipated in the total obligation for all activities under this appropriation.

Mr. WHITTEN. Now, that is based on the work you have been doing in the past, which many folks feel has been far too slow. With this $11,500,000 reduction in availability of funds to speed that work up, we have just that much more of a slowdown, isn't that right?

Mr. GRANT. This contemplates that work would begin on 60 new watersheds in 1958 and 60 new watersheds in 1959, so it does represent some increase over last year. As I recall we had 42 watersheds under construction as of the close of fiscal year 1957.

Mr. WHITTEN. Proceed.

AGRICULTURAL CONSERVATION PROGRAM

Mr. GRANT. Under the agricultural conservation program there is an increase in the appropriation of $23 million. This anticipates there will be underearnings of $15 million on the 1957 program, so that the $235 million proposed in the budget will provide for carrying out the full program level of $250 million as authorized in last year's appropriation act. The Budget proposes an advance authorization of $125 million for the 1959 ACP.

AGRICULTURAL MARKETING SERVICE

Under the Agricultural Marketing Service, for marketing services, there is an increase of $5,600,000. That is principally due to an increase of $5,390,000 for the Poultry Products Inspection Act. This is new legislation, which is being put into effect in the current fiscal year, for mandatory inspection at poultry processing plants.

There is also an increase of $225,000 to provide more effective administration of the Packers and Stockyards Act.

SOIL BANK PROGRAMS

In connection with the soil bank programs, there is an increase of $187,060,000 for the conservation reserve program. This estimate contemplates that the program authorization will be increased to $450 million for next year, an increase of $125 million. The estimate of $350 million is the estimated amount required to make practice payments and annual rental payments on contracts already signed, and anticipated to be signed this year.

The acreage reserve program reflects a decrease of $270 million below the 1958 appropriation. That is based on the assumption that the program will terminate after the 1958 crops, and represents the best estimate at the time the budget was prepared of participation in the 1958 program.

Mr. ANDERSEN. They only estimated $330 million to pay that bill?

Mr. ROBERTS. No. This is a very complicated estimate. The $330 million is not entirely related to the $500 million program for 1958. Mr. Grant has figures which will give you a breakdown of the $330 million. It includes only those moneys needed in the fiscal year 1959 to meet expenditures in that year.

Mr. ANDERSEN. All right, we will pass it by. I just wanted to be sure you weren't reducing these funds any further.

COMMODITY STABILIZATION SERVICE

Mr. GRANT. In the appropriation for "Acreage allotments and marketing quotas," we propose a decrease of $1 million. A total of $39,715,000 is proposed, and contemplates improvements in operations at the local level, a reduction in the percentage of checking on corn allotments, and reduced workload due to an expanded conservation reserve program.

We recommend an increase of $8,337,500 for the Sugar Act program. The production of sugar has been increasing in recent years, and it is going to be necessary, in connection with the 1957 crop, to defer payments of some $6 million over and above what has been deferred in the past, including a deferment of some $2 million in the domestic sugar beet area, because the 1958 appropriation is not adequate to meet all the payments due; so the increase for 1959 is largely to offset this increase in payments and get the sugar program on a somewhat more current basis.

Mr. ROBERTS. I think it should be emphasized, Mr. Grant, that the Puerto Rican payments will still be deferred.

Mr. GRANT. Yes, they will still be deferred, but at about the same level as they have been over the years.

Mr. ROBERTS. Yes.

Mr. GRANT. I don't know whether you are interested in the changes in the Forest Service?

FOREST SERVICE

Mr. WHITTEN. I think the committee would be interested. While there are certain things between the Interior Department and the Forest Service in that they have some common problems, it has nevertheless always been my opinion that the Forest Service appropriation, being a part of the Department of Agriculture, would better be handled in connection with it. So, we do have our interest in it, and we would like your comments.

Mr. GRANT. The estimates for the Forest Service reflect a net decrease of $2,987,000. This includes an increase of $1 million for construction of employee housing in national forests, in areas where it is not feasible for employees to rent housing. There is a decrease of $1 million in the program for payments to State foresters for the production of forest tree seedlings, a decrease of $1,237,000 in the appropriation for construction of forest roads and trails, and a decrease of $500,000 in the appropriation for payments to States under title 4 of Public Law 540, for tree planting.

There is also a decrease of $200,000 in the appropriation for acquisition of lands in national forests, and a decrease of $1,375,000 representing savings to be realized in fiscal year 1958.

Overall, the budget includes a total annual appropriation for regular activities under the act for the Department of Agriculture of $1,545,708,000, which represents a decrease of $63,270,000.

Mr. ANDERSEN. May I ask a question?

AVERAGE ANNUAL POSITIONS IN THE BUDGET

How much is reflected here in increases for manpower in the Department itself, or is there a decrease reflected in there?

Mr. GRANT. I have, Mr. Chairman, a table on average annual positions in the Department, which shows, for all funds available, a decrease of 164 in 1959.

Mr. ANDERSEN. I am referring to this amount you just quoted as being for the regular activities.

Mr. GRANT. For the annual appropriations there is an increase of 706 in 1959.

Mr. ANDERSEN. There is represented in that an increase of 706 man-years above the previous fiscal year?

Mr. GRANT. Yes; above the previous fiscal year. This is primarily due to the increases requested for utilization research and for poultry inspection. As you know, new legislation enacted last year provides that the Federal Government shall pay for the mandatory poultry inspection rather than, as in the past, some of the plants paying for voluntary inspection; so, from the standpoint of the annual appropriations in this bill, it is anticipated that there will be an increase of 706 average positions.

Mr. ROBERTS. I think it is important, Mr. Andersen, that that is a net increase, because, as we pointed out earlier, there is a net decrease in funds. Poultry inspection and utilization research provide for an increase of 1,439 man-years of employment alone. So that, if you look at the other activities in the Department that are financed from annual appropriations, there is a substantial net decrease in employment.

Mr. WHITTEN. Mr. Andersen, I would like to have this inserted in the record, this table which shows the annual positions in 1957,1958, and 1959, and I wonder if it would be possible to go back and put in there the positions on the same lines running from the year, fiscal year, 1954. That would give us a 6-year basis.

Mr. GRANT. Yes; we have it beginning with fiscal 1954.

(The material referred to is as follows:)

Average annual positions, permanent [1] and other, 1954–59

[Based on 1959 budget estimates and adjusted for comparability with the 1959 appropriation structure. This table reflects the average annual positions under the appropriations and funds indicated, including those applicable to transfers, allocations, or allotments to organizations other than the agency receiving the appropriation]

	1954	1955	1956	1957	1958 [2]	1959 [3]
Agricultural Research Service:						
Permanent	11,767	12,157	12,877	13,661	14,633	15,452
All other	806	1,887	2,278	2,382	2,364	1,550
Total	12,573	14,044	15,155	16,043	16,997	17,002
Extension Service:						
Permanent	202	221	243	251	258	243
All other	2	3	2	3	3	1
Total	204	224	245	254	261	244
Farmer Cooperative Service: Permanent	82	96	102	106	117	116
Soil Conservation Service (excluding flood prevention):						
Permanent	11,013	11,180	11,694	12,482	13,245	13,267
All other	1,269	1,259	1,274	1,237	1,352	1,331
Total	12,282	12,439	12,968	13,719	14,597	14,598

See footnotes at end of table, p. 12.

Average annual positions, permanent [1] and other, 1954–59—Continued

	1954	1955	1956	1957	1958 [2]	1959 [2]
Flood prevention:						
Permanent	696	704	672	698	799	790
All other	251	268	321	348	409	322
Total	947	972	993	1,046	1,208	1,112
Great Plains conservation program:						
Permanent	----	----	----	----	217	216
Other	----	----	----	----	45	44
Total	----	----	----	----	262	260
Agricultural Conservation Program Service:						
Permanent	818	771	765	689	779	779
All other	34	44	26	26	24	24
Total	852	815	791	715	803	803
Agricultural Marketing Service:						
Marketing research and service:						
Permanent	3,170	3,092	3,274	3,484	4,012	4,864
All other	193	233	286	343	387	362
Total	3,363	3,325	3,560	3,827	4,399	5,226
School-lunch program:						
Permanent	167	164	154	158	184	184
All other	----	1	1	----	1	1
Total	167	165	155	158	185	185
Removal of surplus agricultural commodities:						
Permanent	536	555	643	738	837	840
All other	3	3	7	8	10	10
Total	539	558	650	746	847	850
All other, Agricultural Marketing Service:						
Permanent	2,126	2,283	2,449	2,840	2,933	2,475
All other	49	80	96	123	190	184
Total	2,175	2,363	2,545	2,963	3,123	2,659
Foreign Agricultural Service:						
Permanent	698	291	403	486	509	440
All other	5	10	10	12	10	7
Total	703	301	413	498	519	447
Commodity Exchange Authority: Permanent	119	117	125	126	128	128
Soil-bank programs:						
Conservation-reserve program:						
Permanent	----	----	5	355	531	536
Other	----	----	----	20	30	30
Total	----	----	5	375	561	566
Acreage-reserve program:						
Permanent	----	----	40	346	552	556
Other	----	----	6	26	57	57
Total	----	----	46	372	609	613
Commodity Stabilization Service:						
Acreage allotments and marketing quotas:						
Permanent	740	810	868	786	875	875
All other	27	52	48	57	39	39
Total	767	862	916	843	914	914
Sugar Act program:						
Permanent	157	172	161	160	180	180
All other	4	3	3	4	3	3
Total	161	175	164	164	183	183
Administrative expenses, Commodity Credit Corporation:						
Permanent	3,763	4,310	4,818	4,935	5,374	5,101
All other	35	46	18	16	18	18
Total	3,798	4,356	4,836	4,951	5,392	5,119

See footnotes at end of table, p. 12.

Average annual positions, permanent [1] and other, 1954–59—Continued

	1954	1955	1956	1957	1958 [2]	1959 [2]
Commodity Stabilization Service—Continued						
All other, Commodity Stabilization Service:						
Permanent	199	361	348	313	367	353
All other	5	13	8	7	3	4
Total	204	374	356	320	370	357
Federal Crop Insurance Corporation:						
Permanent	490	474	498	497	552	554
All other	231	254	318	366	417	426
Total	721	728	816	863	969	980
Rural Electrification Administration:						
Permanent	1,017	983	1,010	1,027	1,027	1,021
All other	3	5	4	3	4	4
Total	1,020	988	1,014	1,030	1,031	1,025
Farmers' Home Administration:						
Permanent	5,480	4,791	5,056	5,318	5,353	5,321
All other	399	700	726	894	721	686
Total	5,879	5,491	5,782	6,212	6,074	6,007
Office of the General Counsel:						
Permanent	392	365	382	385	406	417
All other	1	1	1	3	2	2
Total	393	366	383	388	408	419
Office of the Secretary:						
Permanent	568	596	596	585	607	607
All other	2	1	1	1	1	1
Total	570	597	597	586	608	608
Office of Information:						
Permanent	122	116	119	122	120	120
All other	1	1	1	1	1	1
Total	123	117	120	123	121	121
Library:						
Permanent	153	145	149	151	139	129
All other	1	1	1	1	1	1
Total	154	146	150	152	140	130
Forest Service (excluding forest roads and trails):						
Permanent	7,404	7,295	7,749	8,371	9,787	9,782
All other	5,591	4,865	6,197	6,350	6,870	6,909
Total	12,995	12,160	13,946	14,721	16,657	16,691
Forest roads and trails:						
Permanent	1,469	1,440	1,529	1,657	1,735	1,736
All other	1,430	1,275	1,345	1,505	1,670	1,623
Total	2,899	2,715	2,874	3,162	3,405	3,359
Recapitulation:						
Permanent	53,348	53,489	56,729	60,727	66,256	67,082
All other	10,342	11,005	12,978	13,736	14,632	13,640
Grand total	63,690	64,494	69,707	74,463	80,888	80,722

[1] Full-time positions, regardless of status of employees (permanent, temporary, etc.) who occupy same.
[2] Estimated.

Source: Prepared by Office of Budget and Finance, Division of Budgetary and Financial Reporting, Jan. 24, 1958.

Mr. WHITTEN. One way of taking that is, it looks like the fewer farmers, the more and more Federal employees you need to look after them.

Mr. ROBERTS. I hope that comparison will not be made.

SPECIAL ACTIVITIES

Mr. WHITTEN. Mr. Grant, now that you have presented to us the activities of the Department of Agriculture in connection with its regular work, I wish you would discuss at this point the special programs which have been assigned to the Department.

I have reference to the field of foreign aid, for instance. I have served on this committee for some years, and I am familiar with the fact that there are numerous other activities, some of which have a relationship to the Department, some of which actually have very little, but due to the fact the Commodity Credit Corporation is a corporation, and is geared up to handle the administrative job, you are presented with the responsibility of handling the financing of various of these programs. Then by direct appropriation we have to restore the funds to CCC.

I believe you have mentioned loans, but the various lending activities of the Department of Agriculture are secured in many fields. Actually, the repayment for any given year may be close to the entire amount for new loans. In presenting that I would like you to so designate these various activities and, if it is not too much trouble, I would like to show for the loan programs the amount of repayment that is expected in that year.

GENERAL BUDGETARY TABLES

Mr. GRANT. Mr. Chairman, I wonder if I may, in accordance with your previous practice, have permission to insert in the record the book of tables that we have given to you. Table 6 in this book of tables reflects the estimated receipts arising from the Department of Agriculture's activities. This table indicates that for fiscal year 1959 it is anticipated that collections of Farmers' Home Administration loans will total $227 million; Rural Electrification Administration loans repayments are estimated at $147,635,000. That table indicates in addition, all of the other receipts of the Department.

Mr. WHITTEN. We will have the tables included in the record.

Mr. GRANT. These tables are of historical value in tracing over the years the financial activities transactions of the Department.

Mr. WHITTEN. They will be included in the record at this point.

(The information is as follows:)

TABLE 1.—*Budget estimates, 1959, compared with appropriations and REA and FHA loan authorizations, 1958*

[NOTE.—Amounts for 1958 include all supplemental appropriations to date and are adjusted for comparability with the appropriation structure proposed in the 1959 budget estimates]

Agency or item	Appropriations and loan authorizations, 1958	Budget estimates, 1959	Increase (+) or decrease (−)
Annual appropriations for regular activities:			
Agricultural Research Service:			
Research	$57,794,890	$60,744,890	+$2,950,000
Plant and animal disease and pest control, and meat inspection	46,908,000	59,458,000	+12,550,000
State experiment stations (principally payments to States)	30,603,708	30,603,708	----------
Total, Agricultural Research Service	135,306,598	150,806,598	+15,500,000
Extension Service:			
Payments to States	50,715,000	50,715,000	----------
Other (retirement and penalty mail for State extension services; and Federal Extension Service)	9,520,540	9,444,395	−76,145
Total, Extension Service	60,235,540	60,159,395	−76,145
Farmer Cooperative Service	578,000	578,000	----------
Soil Conservation Service:			
Conservation operations	72,545,000	72,280,000	−265,000
Watershed protection	25,500,000	14,000,000	−11,500,000
Flood prevention	13,220,000	13,220,000	----------
Water conservation and utilization projects	350,000	335,000	−15,000
Great Plains Conservation Program	10,000,000	10,000,000	----------
Total, Soil Conservation Service	121,615,000	109,835,000	−11,780,000
Agricultural Conservation Program Service:			
Agricultural conservation program	212,000,000	235,000,000	+23,000,000
Emergency conservation measures	20,000,000	----------	−20,000,000
Total, Agricultural Conservation Program Service	232,000,000	235,000,000	+3,000,000
Agricultural Marketing Service:			
Marketing research and agricultural estimates	14,116,700	14,095,000	−21,700
Marketing services	15,574,900	21,197,000	+5,622,100
Payments to States	1,160,000	1,160,000	----------
School-lunch program	100,000,000	100,000,000	----------
Total, Agricultural Marketing Service	130,851,600	136,452,000	+5,600,400
Foreign Agricultural Service	4,002,300	4,002,300	----------
Commodity Exchange Authority	832,000	832,000	----------
Soil-bank programs:			
Conservation reserve	162,940,000	350,000,000	+187,060,000
Acreage reserve	600,000,000	330,000,000	−270,000,000
Total, soil-bank programs	762,940,000	680,000,000	−82,940,000
Commodity Stabilization Service:			
Acreage allotments and marketing quotas	40,715,000	39,715,000	−1,000,000
Sugar Act program	67,662,500	76,000,000	+8,337,500
Federal Crop Insurance Corporation (operating and administrative expenses)	6,376,700	6,376,700	----------
Rural Electrification Administration (salaries and expenses)	9,030,950	9,019,000	−11,950
Farmers' Home Administration (salaries and expenses)	29,089,500	29,089,500	----------
Office of the General Counsel	2,943,000	3,043,000	+100,000
Office of the Secretary	2,660,660	2,660,660	----------
Office of Information	1,367,500	1,367,500	----------
Library	772,000	772,000	----------
Forest Service	119,826,000	116,839,000	−2,987,000
Total, annual appropriations for regular activities	1,728,804,848	1,662,547,653	−66,257,195
Deduct amount for Forest Service	−119,826,000	−116,839,000	−2,987,000
Total, annual appropriations for regular activities from general fund of Treasury as shown in subcommittee print	1,608,978,848	1,545,708,653	−63,270,195
Restoration of capital impairment, Commodity Credit Corporation	1,239,788,671	1,760,399,886	+520,611,215

TABLE 1.—*Budget estimates, 1959, compared with appropriations and REA and FHA loan authorizations, 1958*—Continued

Agency or item	Appropriations and loan authorizations, 1958	Budget estimates, 1959	Increase (+) or decrease (−)
Corporate administrative expense limitation, Commodity Credit Corporation	$35,398,000	$36,100,000	+$702,000
Permanent appropriations:			
Removal of surplus agricultural commodities (30 percent of customs receipts)	220,878,158	232,500,000	+11,621,842
National Wool Act	29,671,679	30,000,000	+328,321
All other permanent appropriations	43,537,100	43,554,700	+17,600
Total, permanent appropriations	294,086,937	306,054,700	+11,967,763
Deduct permanent appropriations for the Forest Service	−42,875,100	−42,875,100	
Total, permanent appropriations in subcommittee print	251,211,837	263,179,600	+11,967,763
Loan authorizations:			
Rural Electrification Administration loans:			
Rural electrification	[1] 179,000,000	[3] 150,000,000	−29,000,000
Rural telephone	[3] 60,000,000	[4] 56,000,000	−4,000,000
Total, Rural Electrification Administration	239,000,000	206,000,000	−33,000,000
Farmers' Home Administration loans:			
Farm ownership	24,000,000	175,000,000	−34,500,000
Farm operating (production and subsistence)	180,000,000		
Soil and water conservation	5,500,000		
Total, Farmers' Home Administration	209,500,000	175,000,000	−34,500,000
Total, loan authorizations	448,500,000	381,000,000	−67,500,000
Note—Estimated principal and interest repayments on loans	351,843,600	374,731,600	

	Appropriations 1958 (for 1956 program costs)	Anticipated supplementals, 1958 (for 1957 program costs)	Increase, anticipated supplementals, 1958 compared with appropriations, 1958
Special activities:			
Appropriations for repayment to Commodity Credit Corporation for authorized programs in 1956 and 1957:			
Agricultural Research Service:			
For advances for animal disease eradication activities	$18,581,660	$18,942,413	+$360,753
Agricultural Marketing Service:			
For advances for costs incurred for inspecting and grading tobacco and classing cotton	80,449	1,139,982	+1,059,533
Commodity Stabilization Service:			
For special commodity disposal programs (foreign-aid items):			
Sales of surplus agricultural commodities for foreign currencies (Public Law 480, approved July 10, 1954)	[5] 637,000,000	[5] 1,290,841,000	+653,841,000
Other (International Wheat Agreement, emergency famine relief to friendly peoples, transfer of bartered materials to supplemental stockpile, grain for migratory waterfowl)	187,414,129	434,708,473	+247,294,344
Soil bank programs		567,500,000	+567,500,000
Total, special activities	843,076,238	2,313,131,868	+1,470,055,630

[1] Includes a reserve authorization of $20,000,000. Including the carryover of funds from prior years, it is estimated that loans totaling $280,000,000 will be made in 1958.

[2] Including carryover of funds from prior years, it is estimated that loans totaling $175,000,000 will be made in 1959.

[3] Includes a reserve authorization of $10,000,000. Including the carryover of funds from prior years, it is estimated that loans totaling $80,000,000 will be made in 1958.

[4] Including carryover of funds from prior years, it is estimated that loans totaling $59,600,000 will be made in 1959.

[5] The dollar equivalent value of foreign currencies received for the sale of surplus commodities and deposited in the U. S. Treasury, from the beginning of the program through June 30, 1957, computed at the rates specified in the agreements with the participating foreign countries, was $1,411,557,718.

TABLE 2.—*Subappropriations—Appropriations and REA and FHA loan authorizations, 1957, 1958, and budget estimates, 1959*

[NOTE.—Amounts for 1957 and 1958 include all supplemental appropriations to date, and are adjusted for comparability with the appropriation structure proposed in the 1959 budget estimates]

Agency or item	Appropriations and loan authorizations, 1957	Appropriations and loan authorizations, 1958	Budget estimates, 1959	Increase (+), or decrease (−), budget estimates, 1959 compared with 1958
Annual appropriations for regular activities:				
Agricultural Research Service:				
Salaries and expenses:				
Research	$53,786,000	$57,794,890	$60,744,890	+$2,950,000
Plant and animal disease and pest control [1]	[2] 29,744,000	[3] 30,082,000	42,132,000	+12,050,000
Meat inspection	15,650,000	16,826,000	17,326,000	+500,000
Total, salaries and expenses	99,180,000	104,702,890	120,202,890	+15,500,000
State Experiment Stations:				
Payments to States, Hawaii, Alaska, and Puerto Rico	29,503,708	30,353,708	30,353,708	----------
Penalty mail	250,000	[4] 250,000	250,000	----------
Total, State experiment stations	29,753,708	30,603,708	30,603,708	----------
Animal disease laboratory facilities	[5] 16,250,000	----------	----------	----------
Total Agricultural Research Service	145,183,708	135,306,598	150,806,598	+15,500,000
Extension Service:				
Cooperative extension work, payments and expenses:				
Payments to States, Hawaii, Alaska, and Puerto Rico	49,865,000	50,715,000	50,715,000	----------
Retirement costs for extension agents	----------	5,260,000	5,479,375	+219,375
Penalty mail	[6] 2,164,000	2,164,000	1,868,480	−295,520
Federal Extension Service	2,000,000	2,096,540	2,096,540	----------
Total, Extension Service	54,029,000	60,235,540	60,159,395	−76,145
Farmer Cooperative Service	550,000	578,000	578,000	----------
Soil Conservation Service:				
Conservation operations	67,500,000	72,545,000	72,280,000	−265,000
Watershed protection	[7] 17,500,000	[7] 25,500,000	[7] 14,000,000	−11,500,000
Flood prevention	[7] 12,000,000	[7] 13,220,000	13,220,000	----------
Water conservation and utilization projects	[7] 232,000	[7] 350,000	335,000	−15,000
Great Plains conservation program	----------	10,000,000	10,000,000	----------
Total, Soil Conservation Service	97,232,000	121,615,000	109,835,000	−11,780,000
Agricultural Conservation Program Service:				
Agricultural conservation program	227,500,000	212,000,000	235,000,000	+23,000,000
Emergency conservation measures	[8] 4,000,000	[9] 20,000,000	----------	−20,000,000
Total, Agricultural Conservation Program Service	231,500,000	232,000,000	235,000,000	+3,000,000
Agricultural Marketing Service:				
Marketing research and service:				
Marketing research and agricultural estimates	13,430,653	14,116,700	14,095,000	−21,700
Marketing services	13,020,000	[10] 15,574,900	21,197,000	+5,622,100
Total, marketing research and service	26,450,653	29,691,600	35,292,000	+5,600,400

See footnotes at end of table, p. 12.

TABLE 2.—*Subappropriations—Appropriations and REA and FHA loan authorizations, 1957, 1958, and budget estimates, 1959*—Continued

Agency or item	Appropriations and loan authorizations, 1957	Appropriations and loan authorizations, 1958	Budget estimates, 1959	Increase (+), or decrease (−), budget estimates, 1959 compared with 1958
Annual appropriations for regular activities—Continued				
Agricultural Research Service—Con.				
Payments to States	$1,160,000	$1,160,000	$1,160,000	
School-lunch program	100,000,000	100,000,000	100,000,000	
Total, Agricultural Marketing Service	127,610,653	130,851,600	136,452,000	+$5,600,400
Foreign Agricultural Service	3,750,000	4,002,300	4,002,300	
Commodity Exchange Authority	787,400	832,000	832,000	
Soil-bank programs:				
Conservation reserve		[11] 162,940,000	[13] 350,000,000	+187,060,000
Acreage reserve		[12] 600,000,000	[14] 330,000,000	−270,000,000
Total, soil-bank programs		762,940,000	680,000,000	−82,940,000
Commodity Stabilization Service:				
Acreage allotments and marketing quotas	40,969,347	40,715,000	39,715,000	−1,000,000
Sugar Act program	67,600,000	67,662,500	76,000,000	+8,337,500
Total, Commodity Stabilization Service	108,569,347	108,377,500	115,715,000	+7,337,500
Federal Crop Insurance Corporation (operating and administrative expenses)	[15] 6,210,000	[15] 6,376,700	[15] 6,376,700	
Rural Electrification Administration (salaries and expenses)	8,600,000	9,030,950	9,019,000	−11,950
Farmers' Home Administration (salaries and expenses)	[16] 27,750,000	29,089,500	29,089,500	
Office of the General Counsel	[17] 2,785,000	2,943,000	3,043,000	+100,000
Office of the Secretary	[18] 2,523,400	2,660,660	2,660,660	
Office of Information	1,325,000	1,367,500	1,367,500	
Library	735,000	772,000	772,000	
Forest service:				
Forest protection and utilization:				
Forest-land management [19]	[20] 61,815,750	68,650,000	68,357,000	−293,000
Forest research	10,155,000	11,835,000	12,128,000	+293,000
State and private forestry cooperation	12,190,000	13,245,000	12,195,000	−1,050,000
Total, forest protection and utilization	84,160,750	93,730,000	92,680,000	−1,050,000
Forest roads and trails	[21] 24,000,000	[21] 24,336,000	[21] 23,099,000	−1,237,000
Assistance to States for tree planting		500,000		−500,000
Acquisition of lands for national forests:				
Cache National Forest, Utah	[22] 50,000	[21] 50,000	50,000	
Superior National Forest	[22] 500,000	[21] 500,000	[21] 300,000	−200,000
Special acts (Cache National Forest)	10,000	10,000	10,000	
Cooperative range improvements	[21] 700,000	[21] 700,000	700,000	
Total, Forest Service	109,420,750	119,826,000	116,839,000	−2,987,000
Deduct, to avoid duplication in total, amounts transferred pursuant to provisions in the Second Urgent Deficiency Appropriation Act, 1957, and the Third Supplemental Act, 1957	−4,037,400			
Total, annual appropriations for regular activities	924,523,858	1,728,804,848	1,662,547,653	−66,257,195
Deduct amount for Forest Service	−109,420,750	−119,826,000	−116,839,000	−2,987,000
Total, annual appropriations for regular activities from general fund of Treasury as shown in subcommittee print	815,103,108	1,608,978,848	1,545,708,653	−63,270,195

See footnotes at end of table, p. 19.

TABLE 2.—*Subappropriations—Appropriations and REA and FHA loan authorizations, 1957, 1958, and budget estimates, 1959*—Continued

Agency or item	Appropriations and loan authorizations, 1957	Appropriations and loan authorizations, 1958	Budget estimates, 1959	Increase (+), or decrease (−), budget estimates, 1959 compared with 1958
Subscription to capital stock, Federal Crop Insurance Corporation	[34] $13,000,000			
Restoration of capital impairment, Commodity Credit Corporation	929,287,178	$1,239,788,671	$1,760,399,886	+$520,611,215
Corporate administrative expense limitation, Commodity Credit Corporation	[35] 33,000,000	[36] 35,398,000	[36] 36,100,000	+702,000
Permanent appropriations:				
General fund appropriations:				
Payments to school funds, Arizona and New Mexico, national-forests receipts	129,404	129,400	129,400	
Removal of surplus agricultural commodities (30 percent of customs receipts)	[37] 199,976,003	[37] 220,878,158	[37] 232,500,000	+11,621,842
National Wool Act, Agriculture	2,020,975	29,671,679	30,000,000	+328,321
Total	202,126,382	250,679,237	262,629,400	+11,950,163
Appropriations from special sources:				
Expenses, brush disposal, Forest Service (special receipt fund)	[37] 2,873,212	[37] 4,500,000	[37] 4,500,000	
Forest-fire prevention	[37] 15,585	[37] 15,000	15,000	
Payment to Minnesota (Cook, Lake, and St. Louis Counties) from national forests receipts	46,497	48,000	48,000	
Payments due counties, submarginal land program, Farm Tenant Act (receipt funds)	490,565	425,000	425,000	
Payments to States and Territories from the national forests receipts	28,490,343	26,969,200	26,969,200	
Roads and trails for States, national-forests receipts	[37] 11,398,646	[37] 10,788,500	10,788,500	
Perishable Agricultural Commodities Act fund (special receipt funds)	[37] 532,690	[37] 662,000	[37] 679,600	+17,600
Total	43,847,538	43,407,700	43,425,300	+17,600
Total, permanent appropriations	245,973,920	294,086,937	306,054,700	+11,967,763
Deduct permanent appropriations for the Forest Service	−43,444,252	−42,875,100	−42,875,100	
Total, permanent appropriations in subcommittee print	202,529,668	251,211,837	263,179,600	+11,967,763
Loan authorizations:				
Rural Electrification Administration loans:				
Rural electrification	[30] 414,000,000	[30] 179,000,000	[30] 150,000,000	−29,000,000
Rural telephone	[31] 100,000,000	[33] 60,000,000	[33] 56,000,000	−4,000,000
Total, Rural Electrification Administration loans	514,000,000	239,000,000	206,000,000	−33,000,000
Farmers' Home Administration loans:				
Farm ownership	[34] 50,000,000	24,000,000	175,000,000	−34,500,000
Farm operating (production and subsistence)	[35] 180,000,000	180,000,000		
Soil and water conservation	5,500,000	5,500,000		
Farm housing	[36] 450,000,000			
Total, Farmers' Home Administration loans	685,500,000	209,500,000	175,000,000	−34,500,000
Total, loan authorizations	1,199,500,000	448,500,000	381,000,000	−67,500,000

See footnotes at end of table, p. 19.

TABLE 2.—*Subappropriations—Appropriations and REA and FHA loan authorizations, 1957, 1958, and budget estimates, 1959*—Continued

Agency or item	Appropriations, 1957 (for 1955 program costs)	Appropriations, 1958 (for 1956 program costs)	Anticipated supplementals, 1958 (for 1957 program costs)	Increase (+), or decrease (−), anticipated supplementals, '958 compared with appropriations, 1955
Special activities:				
Appropriations for repayment to Commodity Credit Corporation for authorized programs in 1955, 1956, and 1957:				
Agricultural Research Service:				
For advances for eradication of foot-and-mouth disease and vesicular exanthema in swine	$1,269,330	$1,853,450	$1,393,490	−$459,960
For advances for eradication of brucellosis in cattle	11,791,624	16,728,210	17,548,923	+820,713
Agricultural Marketing Service:				
For advances for costs incurred for inspecting and grading tobacco and classing cotton	367,740	80,449	1,139,982	+1,059,533
Commodity Stabilization Service:				
For special commodity disposal programs (foreign-aid items):				
International Wheat Agreement	101,130,155	92,930,611	89,996,331	−2,934,280
Emergency famine relief to friendly peoples (title II Public Law 480, approved July 10, 1954)	88,628,927	94,483,518	125,761,388	+31,277,870
Sales of surplus agricultural commodities for foreign currencies (title I, Public Law 480, approved July 10, 1954)	[37] 67,477,228	[37] 637,000,000	[37] 1,290,841,000	+653,841,000
Transfer of bartered materials to supplemental stockpile	----------	----------	218,946,145	+218,946,145
Transfer of hay and pasture seeds (Public Law 524, approved July 26, 1954)	184,678	----------	----------	----------
Grain for migratory waterfowl	----------	----------	4,609	+4,609
Soil bank programs	----------	----------	567,500,000	+567,500,000
Total, special activities	270,849,682	843,076,238	2,313,131,868	+1,470,055,630

[1] Includes contingency funds for use to the extent necessary to meet emergency outbreaks of insects and plant diseases, as follows: 1957, $6,900,000 of which $1,250,000 was made immediately available for use in 1956; 1958, $1,000,000; 1959, $1,000,000.

[2] Includes $2,500,000 appropriated in the Second Supplemental Appropriation Act, 1957; and $950,000 provided in the Second Urgent Deficiency Appropriation Act, 1957, to be derived by transfer from other appropriations of the Department.

[3] Includes $4,000,000 appropriated in the Supplemental Appropriation Act, 1958.

[4] Included in the Third Supplemental Appropriation Act, 1957, to be derived by transfer from "Payments to States, Hawaii, Alaska, and Puerto Rico, Extension Service."

[5] Appropriated in the Supplemental Appropriation Act, 1957.

[6] Includes $514,000 provided in the Third Supplemental Appropriation Act, 1957, to be derived by transfer from "Payments to States, Hawaii, Alaska, and Puerto Rico, Extension Service."

[7] In addition, prior year balances available.

[8] Appropriated in the Third Supplemental Appropriation Act, 1957, to be available until June 30, 1958.

[9] Included in the Supplemental Appropriation Act, 1958. In addition, prior year balances available.

[10] Includes $1,300,000 appropriated in the Supplemental Appropriation Act, 1958.

[11] Appropriation Act contains a provision limiting payments to producers under the Conservation Reserve Program to not to exceed $325,000,000 in any calendar year.

Footnotes continued on page 20.

Footnotes continued from page 19.

[13] Budget estimates, 1959, propose a provision limiting payments to producers under conservation reserve program to not to exceed $450,000,000 in any calendar year.

[12] Appropriation Act includes advance authorization of $500,000,000 for formulating and administering an acreage reserve program with respect to the 1958 crops.

[14] Budget estimates, 1959, propose elimination of advance authorization for an acreage reserve program on 1959 crops.

[15] In addition, not to exceed $2,000,000 of premium income may be used for operating and administrative expenses.

[16] Includes $1,000,000 appropriated in the Second Supplemental Appropriation Act, 1957.

[17] Includes $45,000 appropriated in the Second Supplemental Appropriation Act, 1957.

[18] Includes $23,400 provided in the Third Supplemental Appropriation Act, 1957, to be derived by transfer from other appropriations available to the Department.

[19] Includes contingency funds for use to the extent necessary as follows: (1) for the Forest Pest Control Act, 1957, $1,751,000; 1958, $1,760,000; 1959, $1,760,000 and (2) for emergency forest-fire fighting, 1957, $1,750,000; 1958, $5,000,000; 1959, $5,000,000.

[20] Includes supplemental appropriations as follows: Fighting fires, $5,000,000 appropriated and $1,500,000 authorized to be derived by transfer from other appropriations available to the Department in the Second Urgent Deficiency Appropriation Act, 1957; Control of forest pests, $800,000 authorized to be derived by transfer from other appropriations available to the Department in the Third Supplemental Appropriation Act, 1957.

[21] In addition, prior year balances available.

[22] Appropriated in the Second Supplemental Appropriation Act, 1957.

[23] Appropriated in the Second Supplemental Appropriation Act, 1957. In addition, prior year balances available.

[24] Appropriated in the Supplemental Appropriation Act, 1957.

[25] Includes supplemental authorization of $2,000,000 in the Third Supplemental Appropriation Act, 1957.

[26] Appropriation Act provides and budget estimates, 1959, propose that not less than 7 percent of the limitation shall be placed in reserve for use only as necessary to carry out program operations.

[27] In addition, prior year balances available.

[28] Includes supplemental loan authorization of $200,000,000 provided in the Second Urgent Deficiency Appropriation Act, 1957. Including the carryover of funds from prior years, electrification loans amounting to $300,461,514 were made in fiscal year 1957.

[29] Includes a reserve authorization of $20,000,000. Including the carryover of funds from prior years, it is estimated that loans totaling $280,000,000 will be made in 1958.

[30] Including the carryover of funds from prior years, it is estimated that loans totaling $175,000,000 will be made in 1959.

[31] Includes reserve authorization of $20,000,000 for use to the extent necessary for the expeditious and orderly development of the rural telephone program. Including the carryover of funds from prior years, telephone loans amounting to $81,729,000 were made in fiscal year 1957.

[32] Includes a reserve authorization of $10,000,000. Including the carryover of funds from prior years, it is estimated that loans totaling $80,000,000 will be made in 1958.

[33] Including the carryover of funds from prior years, it is estimated that loans totaling $59,600,000 will be made in 1959.

[34] Includes supplemental authorization of $26,000,000 included in the Third Supplemental Appropriation Act, 1957.

[35] Includes authorization of $15,000,000 for use to the extent necessary for the expeditious and orderly conduct of the loan program.

[36] Authorized by Public Law 1020, approved Aug. 7, 1956, for use during fiscal years 1957 to 1961, inclusive.

[37] The dollar equivalent value of foreign currencies received for the sale of surplus commodities and deposited in the U. S. Treasury, from the beginning of the program through June 30, 1957, computed at the rates specified in the agreements with the participating foreign countries, was $1,411,557,718.

TABLE 3.—*Statement of increases and decreases, budget estimates, 1959, compared with appropriations and REA and FHA loan authorizations, 1958*

[Based on appropriations and authorizations for 1958, adjusted for comparability with the appropriation structure proposed in the 1959 budget estimates]

Annual appropriations for regular activities:		
Total appropriations, 1958		$1,728,804,848
Budget estimates, 1959		1,662,547,653
Net decrease, 1959		−66,257,195
Agricultural Research Service:		
Research:		
Decrease due to elimination of nonrecurring appropriation provided in 1958 for construction and alterations of laboratories ($1,445,000 for soil and water conservation research laboratories and $105,000 for a wool processing laboratory at Albany, Calif.)	−$1,550,000	
Increase totaling $4,600,000 for utilization research as follows:		
Research on conversion of wheat, other small grains, and corn or their constitutents, to forms that will encourage increased industrial use (in addition, it is proposed to redirect work in the present farm research program to the extent of $805,000 in order to place greater emphasis on this research on grains)	+1,100,000	
Research on cotton and other fibers to develop new and improved cotton fibers, fabrics, processes, and processing machinery to maintain and create new markets ($800,000) and to expand research on wool ($200,000)	+1,000,000	
Research on fruits and vegetables in order to provide new and improved products for domestic and foreign markets	+250,000	
Expansion of research on oilseeds (soybeans, safflower, flaxseed, cottonseed, castor beans, and peanuts) to develop new industrial outlets such as plastics, plasticizers, lubricants, adhesives, etc	+1,100,000	
Research on new plants and plant seeds to discover new oilseed and fiber crops to meet industrial needs ($150,000); and on sugar to develop derivatives having new and industrial uses ($100,000)	+250,000	
Expansion of research on production of dry whole milk ($500,000), and on frozen meats ($100,000) to extend and stabilize markets; to develop new and improved industrial outlets for animal fats ($250,000); and to improve processing and properties of leather to broaden markets and reduce costs ($50,000)	+900,000	
Net increase, research		+3,050,000
Plant and animal disease and pest control:		
To evaluate registered labeling on pest and disease control products to determine compliance with Public Law 518, amendment to the Federal Food, Drug, and Cosmetics Act, approved July 22, 1954	+$39,300	
To provide for assumption of full responsibility for foreign plant quarantine work in Florida and meeting the additional workload of Customs Service for inspection of passengers' baggage for detection of prohibited or restricted agricultural materials	+250,000	
To meet the requirements of the screwworm eradication program	+900,000	
For the eradication of brucellosis (which partially offsets the elimination of the $17,400,000 transfer from Commodity Credit Corporation in 1958)	+10,860,700	
Net increase, Plant and animal disease and pest control		+12,050,000
Meat inspection:		
To provide inspectors needed in Federally inspected meatpacking plants		+500,000
Extension Service:		
Retirement costs for extension agents: To provide for employer's share of Federal contributions to the retirement fund for cooperative extension agents pursuant to Public Law 854		+219,375
Penalty mail: Decrease in the cost of penalty mail for cooperative extension agents and State extension directors		−295,520
Soil Conservation Service:		
Conservation operations: Decrease due to providing a direct appropriation to the General Services Administration for certain leasing costs previously paid from this appropriation		−81,000
Watershed protection. (Due to the estimated carryover of $10,839,000 from fiscal year 1958 to the fiscal year 1959, there will be an increase of $3,028,218 in total funds available consisting of an increase of $3,828,218 in the Federal share of the cost of installing watershed works of improvement, offset by a decrease of $800,000 in the rate of project investigations and development of watershed works of improvement.)		−11,500,000
Water conservation and utilization projects: Decrease due to reduction in program level for 1959 at Eden Valley project		−15,000
Agricultural Conservation Program Service:		
Agricultural conservation program: Increase to carry out the 1958 program in the amount authorized		+23,000,000
Emergency conservation measures: Decrease due to elimination of nonrecurring appropriation provided in Supplemental Appropriation Act, 1958		−20,000,000

TABLE 3.—*Statement of increases and decreases, budget estimates, 1959, compared with appropriations and REA and FHA loan authorizations, 1958*—Continued

Annual appropriations for regular activies—Continued		
Agricultural Marketing Service:		
Marketing services:		
To strengthen enforcement of the Grain Standards Act pursuant to Public Law 861, approved Aug. 1, 1956	+$40,000	
To provide mandatory inspection to poultry processing plants as required by the Poultry Products Inspection Act	+5,390,000	
To provide more effective administration of the Packers and Stockyards Act	+225,000	
Decrease due to providing a direct appropriation to the General Services Administration for certain leasing costs previously paid from this appropriation	−12,100	
Net increase, marketing services		+$5,642,900
Soil bank programs:		
Conservation reserve program: To provide the amount required for rental and practice payments in fiscal year 1959		+187,060,000
Acreage reserve program: Decrease in funds required in fiscal year 1959, primarily because of the proposed elimination of program on 1959 crops		−270,000,000
Commodity Stabilization Service:		
Acreage allotments and marketing quotas: Decrease due to savings resulting from improved methods of operation at the local level		−1,000,000
Sugar Act program: For mandatory payments to sugar producers		+8,337,500
Office of the General Counsel:		
For legal services incident to:		
Commodity Credit Corporation activities	+$20,000	
Marketing and regulatory laws	+80,000	
Increase, Office of the General Counsel		+100,000
Forest Service:		
Forest protection and utilization:		
Forest land management:		
Decrease due to providing a direct appropriation to the General Services Administration for certain leasing costs previously paid from this appropriation	−$68,000	
To provide housing for employees and other structural improvements on national forests	+1,000,000	
Net increase, forest land management		+932,000
Forest research:		
Decrease due to providing a direct appropriation to the General Services Administration for certain leasing costs previously paid from this appropriation	−$7,000	
For research in forest products utilization	+400,000	
Net increase, forest research		+393,000
State and private forestry cooperation: Decrease in the Federal share of costs of producing trees for reforestation of State and private lands		−1,000,000
Forest roads and trails (due to the estimated carryover of $850,000 from fiscal year 1958 to the fiscal year 1959, there will be a decrease of $362,864 in total funds available for construction and maintenance of roads and trails)		−1,237,000
Acquisition of lands for Superior National Forest: Decrease to provide for acquisition of lands at about the 1958 level		−200,000
Assistance to States for tree planting: Decrease to eliminate the appropriation for this program in 1959		−500,000
Deduct savings in 1958 reflected as reductions in 1959 estimates:		
Agricultural Research Service: Salaries and expenses, research	−$100,000	
Soil Conservation Service: Conservation operations	−184,000	
Agricultural Marketing Service:		
Marketing research and agricultural estimates	−21,700	
Marketing services	−20,800	
Rural Electrification Administration: Salaries and expenses	−11,950	
Forest Service:		
Forest protection and utilization:		
Forest land management	−1,225,000	
Forest research	−100,000	
State and private forestry cooperation	−50,000	
Total savings		−1,713,450
Net decrease, annual appropriations for regular activities		−66,257,195
Restoration of capital impairment, Commodity Credit Corporation		+520,611,215
Corporate administrative expense limitation:		
Commodity Credit Corporation:		
Decrease in price-support operation	−$1,111,000	
Increase to provide a contingency reserve to enable the Corporation to meet unforeseeable expansion in workload	+1,813,000	
Increase, administrative expenses, Commodity Credit Corporation		+702,000

TABLE 3.—*Statement of increases and decreases, budget estimates, 1959, compared with appropriations and REA and FHA loan authorizations, 1958*—Continued

Permanent appropriations:		
Agricultural Marketing Service:		
Perishable Agricultural Commodities Act fund: To place on a full-year basis the expansion made in 1958 to carry out the provisions of the act		+$17,000
Removal of surplus agricultural commodities—due to increase in 1957 calendar year customs receipts		+11,621,842
Commodity Stabilization Service:		
National Wool Act: For reimbursement to Commodity Credit Corporation for estimated costs to be incurred in fiscal year 1958		+328,321
Increase, permanent appropriations		+11,967,763
Loan authorizations:		
Rural Electrification Administration:		
Rural electrification loans (the authorization requested for fiscal year 1959 will make a total of $175 million available for loans)	−$29,000,000	
Rural telephone loans (the authorization requested for fiscal year 1959 will make a total of $59.6 million available for loans)	−4,000,000	
		−33,000,000
Farmers' Home Administration: A decrease in loan authorizations for direct farm ownership loans, farm operating loans, and soil and water conservation loans		−34,500,000
Decrease, loan authorizations		−67,500,000
Special activities:		
Appropriations for repayment to Commodity Credit Corporation for authorized programs (anticipated supplemental appropriations, 1958, for 1957 program costs, compared with appropriations, 1958, for 1956 program costs):		
Agricultural Research Service:		
Reimbursements to Commodity Credit Corporation for animal-disease eradication activities: Net increase composed of increase of $820,713 for eradication of brucellosis in cattle ($17,548,923 for 1957 program costs compared with $16,728,210 for 1956 program costs) and a decrease of $459,960 for eradication of vesicular exanthema of swine ($1,393,490 for 1957 program costs compared with $1,853,450 for 1956 program costs)		+360,753
Agricultural Marketing Service:		
Reimbursement to Commodity Credit Corporation for advances for grading and classing activities: Increase for grading and classing activities ($1,139,982 for 1957 program costs compared with $80,449 for 1956 program costs)		+1,059,533
Soil-bank programs: To repay Commodity Credit Corporation for transfers and other costs of soil-bank programs		+567,500,000
Commodity Stabilization Service:		
Special commodity disposal programs (foreign aid items):		
Increases of:		
(1) $31,277,870 for emergency famine relief to friendly peoples ($125,761,388 for 1957 costs compared with $94,483,518 for 1956 costs).		
(2) $653,841,000 for sales of surplus agricultural commodities for foreign currencies under Public Law 480 ($1,290,841,000 for 1957 costs compared with $637,000,000 for 1956 costs).		
(3) $218,946,145 for 1957 costs for transfer of bartered materials to supplemental stockpile.		
(4) $4,609 for 1957 costs of grain for migratory waterfowl.		
Decrease of $2,934,280 in net costs in carrying out the International Wheat Agreement program ($89,996,331 for 1957 costs compared with $92,930,611 for 1956 costs).		
Net increase, Commodity Stabilization Service		+901,135,344
Net increase, special activities		+1,470,055,630

TABLE 4.—*Appropriations and REA and FHA loan authorizations, fiscal years 1950 through 1958, and budget estimates, 1959*

[NOTE.—Amounts for 1950 through 1958 are adjusted for comparability with the appropriation structure in the 1959 budget estimates]

[Millions of dollars]

	1950	1951 [1]	1952	1953 [2]	1954	1955	1956	1957	1958	Budget estimates, 1959
Annual appropriations for regular activities:										
Agricultural Research Service:										
Salaries and expenses	66.9	63.9	65.5	65.9	65.9	71.6	77.9	99.2	104.7	120.2
State experiment stations (principally payments to States)	12.7	12.7	12.7	12.7	13.7	19.5	24.8	29.8	30.6	30.6
Research facilities (Plum Island)			10.0							
Animal disease laboratory facilities (Ames, Iowa)							.3	16.3		
Working capital fund, Agricultural Research Center		.3								
Extension Service:										
Cooperative extension work, payments and expenses:										
Payments to States, Hawaii, Alaska, and Puerto Rico	32.1	32.1	32.1	32.3	32.3	39.7	45.5	49.9	50.7	50.7
Other (retirement costs and penalty mail for extension agents; and Federal Extension Service)	1.4	1.4	1.4	1.3	3.0	3.9	3.7	4.2	9.5	9.4
Farmer Cooperative Service	.5	.6	.4	.4	.4	.4	.4	.6	.6	.6
Soil Conservation Service:										
Conservation operations	52.6	52.9	62.6	58.5	57.4	58.3	62.9	67.5	72.5	72.3
Watershed protection					5.0	7.2	12.0	17.5	25.5	14.0
Flood prevention	9.5	6.0	6.5	7.7	8.8	9.1	10.0	12.0	13.2	13.2
Water conservation and utilization projects	[3]	.2	.2	.4	.7	.5	[3]	.2	.4	.3
Great Plains conservation program									10.0	10.0
Agricultural Conservation Program Service:										
Agricultural conservation program	257.0	256.5	260.0	251.7	212.0	191.7	214.5	227.5	212.0	235.0
Emergency conservation measures			31.0		15.0			4.0	20.0	
Agricultural Marketing Service:										
Marketing research and service	18.6	18.7	18.8	19.1	20.6	22.2	24.5	26.5	29.7	35.3
Payments to States	.6	.6	.5	.5	.6	.9	1.0	1.2	1.2	1.2
School-lunch program	83.5	83.5	83.4	83.4	83.2	83.2	83.2	100.0	100.0	100.0
Foreign Agricultural Service [4]	.8	.8	.7	.8	2.4	2.5	3.4	3.8	4.0	4.0
Commodity Exchange Authority	.6	.7	.7	.7	.7	.7	.8	.8	.8	.8
Soil-bank programs:										
Conservation reserve									[6] 162.9	[6] 350.0
Acreage reserve									[7] 600.0	330.0
Commodity Stabilization Service:										
Acreage allotments and marketing quotas	30.1	23.0	10.0	[8] 10.0	43.3	41.0	38.9	41.0	40.7	39.7
Sugar program	60.0	63.8	70.0	65.0	59.6	59.6	59.6	67.6	67.7	76.0
Federal Crop Insurance Corporation (operating and administrative expenses)	5.1	7.1	7.9	8.5	7.5	6.0	6.2	[9] 6.2	[9] 6.4	[9] 6.4
Rural Electrification Administration (salaries and expenses)	7.1	8.3	8.3	8.3	7.6	7.4	8.1	8.6	9.0	9.0
Farmers' Home Administration:										
Salaries and expenses	26.1	28.2	29.4	29.3	26.7	23.9	26.3	27.8	29.1	29.1
Grants (farm housing program)	.7	.4								

Office of the General Counsel	2.6	2.7	2.6	2.5	2.6	2.4	2.7	2.8	2.9	3.0
Office of the Secretary	2.3	2.3	2.3	2.4	2.3	2.3	2.5	2.5	2.7	2.7
Office of Information	1.3	1.4	1.3	1.3	1.3	1.2	1.3	1.3	1.4	1.4
Library	.7	.7	.7	.7	.7	.7	.7	.7	.8	.8
Forest Service:										
Forest protection and utilization	59.0	57.0	62.2	60.3	63.3	62.4	74.5	84.2	93.7	92.7
Forest roads and trails	10.4	13.7	13.0	16.0	14.4	22.5	24.0	24.0	24.3	23.1
Assistance to States for tree planting									.5	
Acquisition of lands for national forests	.2	.3	.3	.3			[9]	.6	.6	.4
Cooperative range improvements		.7	.7	.3	.5	.4	.7	.7	.7	.7
Smoke jumper facilities			.7							
Deduct amounts included in above figures transferred for Pay Act costs	[10] −.2					[10] −2.6	[10] −1.0	[10] −4.0		
Total, annual appropriations for regular activities	742.4	740.5	796.0	740.2	751.4	738.6	809.4	924.5	1,728.8	1,662.5
Subscription to capital stock, Federal Crop Insurance Corporation								13.0		
Restoration of capital impairment, Commodity Credit Corporation:										
Cancellation of notes		66.7	421.5		96.2	550.2				
Appropriations				109.4			1.6	929.3	1,239.8	1,760.4
Total, restoration of capital impairment		66.7	421.5	109.4	96.2	550.2	1.6	929.3	1,239.8	1,760.4
Corporate administrative expense limitation, Commodity Credit Corporation	15.4	19.1	16.5	16.5	20.0	25.3	30.8	33.0	35.4	3.61
Special activities:										
Disaster loan revolving fund (assistance to farmers and stockmen in disaster areas)			30.0		130.0					
Salaries and expenses, defense production activities			1.5	2.0						
Appropriations for repayment to Commodity Credit Corporation for authorized programs: [11]										
Agricultural Research Service:										
For advances for eradication of foot-and-mouth disease and vesicular exanthema in swine:										
Cancellation of notes			32.7	11.2	7.1	2.1				
Appropriations							5.8	1.3	3.2	
For advances for eradication of brucellosis in cattle								11.8	34.3	
Agricultural Marketing Service:										
For advances for costs incurred for inspecting and grading tobacco and classing cotton					.8	.4		.4	1.2	
Commodity Stabilization Service:										
For special commodity disposal programs (foreign aid items):										
International Wheat Agreement:										
Cancellation of notes				182.2	171.7	129.6				
Appropriations			76.8				57.4	101.1	182.9	
Emergency famine relief to friendly peoples (title II, Public Law 480, approved July 10, 1954)							9.5	88.6	220.2	
Sales of surplus agricultural commodities for foreign currencies (title I, Public Law 480, approved July 10, 1954)								67.5	1,927.8	

See footnotes at end of table, p. 27.

TABLE 4.—*Appropriations and REA and FHA loan authorizations, fiscal years 1950 through 1958, and budget estimates, 1959*—Continued

[Millions of dollars]

	1950	1951 [1]	1952	1953 [2]	1954	1955	1956	1957	1958	Budget estimates, 1959
Special activities—Continued										
Appropriations for repayment to Commodity Credit Corporation, etc.—Con.										
Commodity Stabilization Service—Continued										
Transfer of bartered materials to supplemental stockpile									218.9	
Transfer of hay and pasture seeds (Public Law 524, approved July 26, 1954)								.2		
Emergency feed assistance in disaster areas							42.1			
Transfer of wheat to Pakistan							69.4			
Soil bank programs									567.5	
Total, special activities			141.0	195.4	309.6	132.1	184.2	270.8	[11] 3,156.2	
Permanent appropriations:										
General fund appropriations:										
Payments to school funds, Arizona and New Mexico, national forests receipts	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
Removal of surplus agricultural commodities (30 percent of customs receipts)	125.6	111.2	158.9	181.0	172.4	180.1	166.8	200.0	220.9	232.5
National Wool Act, Agriculture							.2	2.0	29.7	30.0
Deduct amounts included in above figures transferred for pay act costs						[10] —.2				
Total	125.7	111.3	159.0	181.2	172.5	179.9	167.1	202.1	250.7	262.6
Appropriations from special sources:										
Expenses, brush disposal, Forest Service (special receipt fund)		.4	1.8	2.5	2.9	3.9	3.4	2.9	4.5	4.5
Forest fire prevention					.1					
Payments due counties, submarginal land program, Farm Tenant Act (receipt fund)	.3	.3	.3	.4	.5	.4	.5	.5	.4	.4
Payments to States and Territories from the national forest receipts	7.8	8.4	14.0	17.4	18.7	16.4	19.4	28.5	27.0	27.0
Roads and trails for States, national forest receipts	3.1	3.3	5.6	7.0	7.5	6.6	7.8	11.4	10.8	10.8
Perishable Agricultural Commodities Act fund (special receipt funds)	.3	.6	.4	.4	.4	.4	.4	.5	.7	.7
Total, permanent appropriations	137.1	124.2	181.1	208.9	202.6	207.7	198.7	246.0	294.1	306.1
Loan authorizations:										
Rural Electrification Administration:										
Electrification loans	[12] 470.0	264.5	100.0	[13] 50.0	[14] 173.0	[15] 170.0	[16] 160.0	[17] 414.0	[18] 179.0	[19] 150.0
Telephone loans	25.0	32.5	[20] 25.2	[21] 42.5	67.5	[22] 75.0	[23] 75.0	[24] 100.0	[25] 60.0	[26] 56.0
Farmers' Home Administration, farm operating, farm ownership, soil and water conservation, and farm housing loans	129.4	147.5	153.0	164.0	182.0	153.0	173.0	[27] 685.5	209.5	175.0
Total, loan authorizations	624.4	444.5	278.2	256.5	422.5	398.0	408.0	1,199.5	448.5	381.0

[1] Represents net amounts available after reductions under sec. 1214 of the 1951 General Appropriation Act.

[2] Represents net amounts available after reductions under secs. 411 and 412 of the 1953 Agricultural Appropriation Act.

[3] Prior-year balances available.

[4] Figures for fiscal years 1950 through 1953 do not include comparable amounts for the expenses related to agricultural attachés, since data is not available with respect to the portion of State Department funds used for this purpose during these years.

[5] Appropriation act contains a provision limiting payments to producers under conservation reserve program to not to exceed $325,000,000 in any calendar year.

[6] Budget estimates, 1959, propose a provision limiting payments to producers under conservation reserve program to not to exceed $450,000,000 in any calendar year.

[7] Appropriation act includes advance authorization of $500,000,000 for formulating and administering an acreage reserve program with r spect to the 1958 crops.

[8] In addition, $2,900,000 was transferred from other appropriations available to the Department pursuant to the Third Supplemental Appropriation Act, 1953.

[9] In addition, not to exceed $2,000,000 of premium income may be used for operating and administrative expenses.

[10] Transferred from appropriations previously made to the Department and shown as deductions to avoid duplications in the totals for these years.

[11] Includes a proposed supplemental for fiscal year 1958 in the amount of $2,313,131,868 to reimburse the Commodity Credit Corporation for 1957 program costs as follows:

Agricultural Research Service:	
For advances for eradication of foot-and-mouth disease and vesicular exanthema in swine	$1, 393, 490
For advances for eradication of brucellosis in cattle	17, 548, 923
Agricultural Marketing Service: For advances for costs incurred for inspecting and grading tobacco and classing cotton	1, 139, 982
Commodity Stabilization Service:	
International Wheat Agreement	89, 996, 331
Emergency famine relief to friendly peoples (title II, Public Law 480, approved July 10, 1954)	125, 761, 388
Sales of surplus agricultural commodities for foreign currencies (Title I, Public Law 480, approved July 10, 1954)	1, 290, 841, 000
Transfer of bartered materials to supplemental stockpile	218, 946, 145
Grain for migratory waterfowl	4, 609
Soil bank programs	567, 500, 000
Total	2, 313, 131, 868

[12] Includes $120,000,000 borrowed under the additional authorization of $150,000,000 contingent upon certification of need by the Secretary of Agriculture.

[13] In addition, act provided a reserve authorization of $50,000,000. Including the carryover of funds from prior years, electrification loans amounting to $164,972,662 were made in fiscal year 1953.

[14] Includes $38,000,000 of a reserve authorization of $45,000,000 which was utilized. Including the carryover of funds from prior years, electrification loans amounting to $167,-104,000 were made in fiscal year 1954.

[15] Includes contingency authorization of $35,000,000 utilized during fiscal year 1955. Including the carryover of funds from prior years, electrification loans amounting to $164,615,874 were made in fiscal year 1955.

[16] In addition, act provided a reserve authorization of $100,000,000. Including the carryover of funds from prior years, electrification loans amounting to $192,719,356 were made in fiscal year 1956.

[17] Including the carryover of funds from prior years, electrification loans amounting to $300,461,514 were made in fiscal year 1957.

[18] Includes a reserve authorization of $20,000,000. Including the carryover of funds from prior years, it is estimated that loans totaling $280,000,000 will be made in fiscal year 1958.

[19] Including carryover of funds from prior years, it is estimated that loans totaling $175,000,000 will be made in 1959.

[20] Consists of $9,000,000 borrowing authorization for rural telephone loans and $16,236,718 borrowed under the reserve authorization of $25,000,000 provided in 1952 act.

[21] Includes $10,000,000 reserve authorization used in fiscal year 1953, and $7,500,000 additional authorization included in the Third Supplemental Appropriation Act, 1953. Including the carryover of funds from prior years, telephone loans amounting to $35,883,500 were made in fiscal year 1953.

[22] Including the carryover of funds from prior years, telephone loans amounting to $52,744,000 were made in fiscal year 1955.

[23] Including the carryover of funds from prior years, telephone loans amounting to $80,980,000 were made in fiscal year 1956.

[24] Includes reserve authorization of $20,000,000 for use to the extent necessary for the expeditious and orderly development of the rural telephone program. Including the carryover of funds from prior years, telephone loans amounting to $81,729,000 were made in fiscal year 1957.

[25] Includes a reserve authorization of $10,000,000. Including the carryover of funds from prior years, it is estimated that telephone loans totaling $80,000,000 will be made in 1958.

[26] Including carryover of funds from prior years, it is estimated that loans totaling $59,600,000 will be made in 1959.

[27] Includes $450,000,000 authorized in Public Law 1020, approved Aug. 7, 1956, for farm housing loans for use during fiscal years 1957 to 1961, inclusive, and $15,000,000 under farm operating loans for use to the extent necessary for the expeditious and orderly conduct of the loan program.

NOTE.—Details may not add to totals shown due to rounding.

TABLE 5.—*Budget expenditures from appropriations, REA and FHA loan authorizations, and corporation and other revolving funds, fiscal years 1950 through 1957, and estimated 1958 and 1959*

[NOTE.—Amounts reported are based on expenditures for the Department of Agriculture as shown in the budget. Figures are adjusted for comparability with the appropriation structure in the 1959 budget]

[Millions of dollars]

	1950	1951	1952	1953	1954	1955	1956	1957	Estimated 1958	Estimated 1959
Annual appropriations for regular activities:										
Agricultural Research Service:										
Salaries and expenses	66.1	61.5	63.1	65.6	66.1	66.9	80.9	90.0	103.5	119.2
State experiment stations (primary payments to States)	12.5	12.7	12.7	12.7	13.7	19.4	24.6	29.3	30.7	30.6
Animal disease laboratory facilities (Ames, Iowa)									.8	8.0
Research facilities (Plum Island)				.1	.5	3.0	4.9	1.1	.8	
Extension service (principally payments to States)	33.0	33.1	33.4	33.4	34.6	42.1	47.6	51.9	59.2	60.3
Farmer Cooperative Service	.5	.6	.4	.4	.4	.4	.4	.5	.6	.6
Soil Conservation Service:										
Conservation operations	52.1	51.9	56.0	59.5	56.6	58.9	63.2	65.9	71.3	71.4
Watershed protection					2.1	6.2	9.6	11.3	17.0	20.0
Flood prevention	6.7	7.4	7.8	6.2	8.4	8.7	9.8	10.6	13.1	13.0
Water conservation and utilization projects	.3	.4	.4	.4	.4	.3	.4	.3	.3	.3
Great Plains conservation program									3.0	6.5
Agricultural Conservation Program Service: Agricultural conservation program	237.2	274.2	261.2	272.7	171.3	235.1	215.2	262.0	227.0	232.0
Agricultural Marketing Service:										
Marketing research and service	18.1	18.4	18.7	19.1	19.3	21.3	24.4	25.2	29.6	35.2
Payments to States	.6	.6	.5	.6	.6	1.0	1.0	1.2	1.2	1.2
School lunch program	83.2	82.8	83.6	82.8	83.5	83.1	82.7	99.2	100.0	100.0
Foreign Agricultural Service [1]	.8	.8	.8	.7	2.3	1.8	3.6	3.5	4.1	4.1
Commodity Exchange Authority	.6	.6	.6	.7	.7	.7	.8	.8	.8	.8
Soil-bank programs [2]										
Conservation reserve program							.2	37.2	162.6	350.8
Acreage reserve program							3.6	510.8	543.4	405.0
Commodity Stabilization Service:										
Acreage allotments and marketing quotas	28.4	21.2	10.0	12.7	41.2	39.6	39.0	40.3	40.8	37.5
Sugar Act program	60.6	68.9	60.3	62.6	66.5	69.7	65.4	67.0	71.4	74.9
Federal Crop Insurance Corporation (operating and administrative expenses)	4.7	5.5	6.0	6.5	5.4	5.1	6.7	6.2	7.7	6.4
Rural Electrification Administration (salaries and expenses)	6.9	8.1	8.3	7.9	7.3	7.5	8.1	8.3	8.9	9.0
Farmers' Home Administration (salaries and expenses)	27.5	28.1	29.2	29.1	26.6	24.1	26.5	27.5	28.9	29.0
Office of the General Counsel	2.3	2.4	2.3	2.3	2.1	2.1	2.2	2.7	2.9	3.0
Office of the Secretary	2.2	2.2	2.2	2.3	2.2	2.2	2.4	2.4	2.6	2.7
Office of Information	1.2	1.7	.9	1.2	1.0	1.5	1.1	1.6	1.4	1.4
Library	.7	.7	.7	.7	.7	.7	.7	.7	.8	.8
Forest Service:										
Forest protection and utilization	58.8	58.5	61.7	58.6	63.0	60.1	73.6	82.6	94.3	92.0

Forest roads and trails	10.2	10.3	13.6	12.5	16.4	18.1	24.1	26.5	22.7	22.5
Assistance to States for tree planting									.5	
Acquisition of lands for national forests	.1	.2	.1			.1		.2	.4	.4
Cooperative range improvements		.4	.4	.6	.7	.5	.6	.7	.7	.7
Smokejumper facilities				.1	.5					
Farm labor program	.1									
Total, annual appropriations for regular activities	715.4	753.2	734.9	752.0	694.1	780.2	823.3	1,467.6	1,652.8	1,739.3
Appropriations for special activities:										
Salaries and expenses, defense production activities			.7	2.5	.2					
Reimbursements to Commodity Credit Corporation for authorized programs: [3]										
Agricultural Research Service:										
Eradication of foot-and-mouth disease and vesicular exanthema in swine	34.0		[4] 32.7	[4] 11.2	[4] 7.1	[4] 2.1	5.8	1.3	3.3	
Eradication of brucellosis in cattle								11.8	34.3	
Agricultural Marketing Service: Inspecting and grading tobacco and classing cotton					.8	.4		.4	1.2	
Commodity Stabilization Service:										
Special commodity disposal programs:										
International Wheat Agreement			76.8	[4] 182.2	[4] 171.7	[4] 129.6	57.4	101.1	182.9	
Emergency famine relief to friendly peoples							9.5	88.6	220.3	
Sales of surplus agricultural commodities for foreign currencies (foreign-aid items) (Public Law 480, approved July 10, 1954)								67.5	1,927.8	
Transfer of bartered materials to supplemental stockpile (foreign-aid items)									218.9	
Transfer of hay and pasture seeds (Public Law 524, approved July 26, 1954)								.2		
Emergency feed assistance in disaster areas							41.9			
Transfer of wheat to Pakistan (foreign-aid items)							60.3			
Total, appropriations for special activities	34.0		110.2	195.9	179.8	132.1	183.9	270.8	2,588.7	
Permanent appropriations:										
General fund appropriations:										
Payments to school funds, Arizona and New Mexico	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
Removal of surplus agricultural commodities (30 percent of customs receipts)	96.6	46.0	37.5	82.3	177.6	58.9	179.1	171.1	150.0	150.0
National Wool Act							.2	2.0	29.7	30.0
Appropriations from special sources:										
Expenses, brush disposal			.3	1.8	2.5	2.8	3.9	3.4	4.4	4.4
Payments to States and Territories from the national forests fund	7.8	8.4	13.9	17.4	18.6	16.4	19.4	28.5	27.0	27.0
Roads and trails for States, national forests fund	2.0	2.6	3.4	7.3	9.8	8.0	7.3	9.7	11.3	10.8
Payments due counties, submarginal land program, Farm Tenant Act	.3		.6	.4	.5	.4	.5	.5	.4	.4
Perishable Agricultural Commodities Act fund	.3	.3	.4	.4	.4	.4	.5	.5	.7	.7
Total, permanent appropriations	107.1	57.4	56.2	109.8	209.6	87.1	210.9	215.9	223.5	223.4

See footnotes at end of table, p. 31.

TABLE 5.—*Budget expenditures from appropriations, REA and FHA loan authorizations, and corporation and other revolving funds, fiscal years 1950 through 1957, and estimated 1958 and 1959*—Continued

[NOTE.—Amounts reported are based on expenditures for the Department of Agriculture as shown in the budget. Figures are adjusted for comparability with the appropriation structure in the 1959 budget]

[Millions of dollars]

	1950	1951	1952	1953	1954	1955	1956	1957	Estimated 1958	Estimated 1959
Loan authorizations:										
Rural Electrification Administration, rural electrification and rural telephone loans	286.7	268.3	235.2	231.5	210.0	196.5	208.7	258.9	330.0	367.0
Farmers' Home Administration, farm operating, farm ownership, soil and water conservation, and farm housing loans	117.5	153.7	160.2	166.4	180.8	145.4	158.4	231.9	260.8	187.8
Total, loan authorizations	404.2	422.0	395.4	397.9	390.7	341.9	367.1	490.8	590.8	554.8
Corporation and other revolving funds (net): [5]										
Commodity Credit Corporation:										
Price support, supply, and related programs	1,606.1	−781.5	−241.5	1,831.3	1,333.3	3,097.5	2,941.3	1,421.0	955.3	1,262.5
Other (special activities) [6]	68.3	200.4	81.1	−82.0	14.2	183.9	641.0	1,121.8	−678.9	1,192.3
Federal Crop Insurance Corporation (capital and insurance fund)	2.0	−1.6	1.5	−1.1	5.9	7.2	3.2	7.4	−6.6	.5
Disaster loans and other assistance revolving fund	29.9	−1.5	12.9	15.5	96.5	10.7	2.8	9.7	−8.5	−1.8
Farm tenant mortgage insurance fund	−.1	−.2	−.2	−.2	−.1		1.4	6.9	10.3	3.3
Other revolving and management funds		1.6	.7	−1.9	−6.9	−4.1	1.9	−5.9	−1.1	7.0
Total, corporation and other revolving funds (net)	1,706.2	−582.8	−145.5	1,761.6	1,442.9	3,295.2	3,591.6	2,560.8	270.5	2,463.8
Total, net budget expenditures	2,966.9	649.8	1,151.2	3,217.2	2,917.1	4,636.5	5,176.8	5,005.9	5,326.5	4,981.3

[1] Figures for fiscal years 1950 through 1953 do not include comparable amounts for the expenses related to agricultural attaches, since data is not available with respect to the portion of State Department funds used for this purpose during these years.

[2] Initially, this program was financed from funds of the Commodity Credit Corporation pursuant to sec. 120 of the Soil Bank Act which authorized the Secretary of Agriculture to use the facilities, services, authorities, and funds of the Commodity Credit Corporation in carrying out the act from its enactment through June 30, 1957. Beginning with fiscal year 1958, the program is financed by direct appropriation.

[3] Amounts shown for 1958 consist of expenditures of appropriations for 1956 program costs and estimated expenditures of anticipated supplemental appropriations for 1957 program costs, as follows:

[Millions of dollars]

	1956 program costs	1957 program costs	Total
Eradication of foot-and-mouth disease and vesicular exanthema in swine	1.9	1.4	3.3
Eradication of brucellosis in cattle	16.7	17.6	34.3
Inspecting and grading tobacco and classing cotton	0.1	1.1	1.2
International Wheat Agreement	92.9	90.0	182.9
Emergency famine relief to friendly peoples	94.5	125.8	220.3
Sales of surplus agricultural commodities for foreign currencies	637.0	1,290.8	1,927.8
Transfer of bartered materials to supplemental stockpile		218.9	218.9
Total	843.1	1,745.6	2,588.7

[4] These amounts represent reimbursements to the Commodity Credit Corporation by the cancellation of notes held by the Secretary of the Treasury. For purposes of comparability the amounts are shown under the respective programs in the same manner as reimbursements by appropriations.

[5] Minus figures indicate excess of collections over expenditures.

[6] Consist principally of authorized programs financed by the Commodity Credit Corporation such as the International Wheat Agreement, sales of surplus agricultural commodities for foreign currencies, emergency famine relief, etc.

NOTE.—Details may not add to totals shown due to rounding.

TABLE 6.—*Receipts to U. S. Treasury arising from Department of Agriculture activities, fiscal year 1957 and estimated fiscal years 1958 and 1959*

Classification and source	Fiscal year 1957, actual				Fiscal year 1958, estimated				Fiscal year 1959, estimated			
	General [1]	Special [2]	Trust [3]	Total	General [1]	Special [2]	Trust [3]	Total	General [1]	Special [2]	Trust [3]	Total
Collections on loans and recoveries of other assets:												
Collections of principal and interest on:												
Farmers Home Administration loans	$183,571,769			$183,571,769	$214,328,600			$214,328,600	$227,096,600			$227,096,600
Rural Electrification Administration loans	127,557,196			127,557,196	137,515,000			137,515,000	147,635,000			147,635,000
Sale of lands and buildings	41,583			41,583	40,000			40,000	40,000			40,000
Total	311,170,548			311,170,548	351,883,600			351,883,600	374,771,600			374,771,600
Receipts from rentals and operations, and miscellaneous reimbursements and collections:												
Business on the national forests—primarily timber sales and grazing fees	69,165,407	[4] $38,515,700		107,681,107	69,159,300	[4] $38,515,700		107,675,000	80,021,000	[4] $44,354,000		124,375,000
Deposits by timber purchasers for brush disposal		2,873,212		2,873,212		4,500,000		4,500,000		4,500,000		4,500,000
Receipts from Tongass National Forest held pending determination of landownership [5]		345,755		345,755		325,000		325,000		325,000		325,000
Receipts from Oregon and California controverted lands, held pending determination of landownership		3,561,732		3,561,732		3,600,000		3,600,000		3,600,000		3,600,000
Use of lands held under title III of the Bankhead-Jones Farm Tenant Act	1,300,999	[6] 433,667		1,734,666	1,275,000	[6] 425,000		1,700,000	900,000	[6] 300,000		1,200,000
Fees and reimbursements for inspection and grading of farm products; and rent of Government-owned food processing plants and other facilities	2,904,503	532,690		3,437,193	2,353,799	662,000		3,015,799	2,353,789	679,600		3,033,389
Sales of agricultural products not required in connection with the work of												

the Department; and reimbursements for professional and scientific services rendered	1,477,364			1,477,364	4,656,800			4,656,800	7,670,900			7,670,900
Fines and penalties under commodity marketing quotas, and other violations	11,660,756			11,660,756	6,078,000			6,078,000	5,603,000			5,603,000
Miscellaneous services, gifts, forfeitures, sales, and reimbursements	895,496	15,585		911,081	563,826	15,000		578,826	553,841	15,000		568,841
Total	87,404,525	46,278,341		133,682,866	84,086,725	48,042,700		132,129,425	97,102,530	53,773,600		150,876,130
Trust fund receipts:												
Contributions from private cooperators for various activities on national and private forest lands			$10,196,199	10,196,199			$12,000,000	12,000,000			$13,000,000	13,000,000
Fees received for inspection and grading of farm products upon application of interested parties			17,903,393	17,903,393			19,610,700	19,610,700			16,110,700	16,110,700
Advances from agricultural conservation program funds for technical services provided by Soil Conservation Service			7,343,186	7,343,186			7,502,794	7,502,794			7,510,000	7,510,000
Receipts for miscellaneous special services, contributions, collections, etc.			575,902	575,902			633,757	633,757			665,505	665,505
Total			36,018,680	36,018,680			39,747,251	39,747,251			37,286,205	37,286,205
Other receipts:												
Interest paid to Treasury on CCC borrowings	335,234,526			335,234,526	452,250,000			452,250,000	427,250,000			427,250,000
Interest paid to Treasury on CCC capital stock	2,375,000			2,375,000	2,750,000			2,750,000	2,750,000			2,750,000
Total	337,609,526			337,609,526	455,000,000			455,000,000	430,000,000			430,000,000
Grand total	736,184,599	46,278,341	36,018,680	818,481,620	890,970,325	48,042,700	39,747,251	978,760,276	901,874,130	53,773,600	37,286,205	992,933,935

[1] Revenue and nonrevenue receipts available to the Treasury for general expenditures of the Government.

[2] Revenue and nonrevenue receipts deposited in the Treasury for specific purposes, pursuant to various legislative authorizations.

[3] Receipts deposited in trust in the Treasury for expenditure by the Department, as trustee, for specified purposes.

[4] Represents the portion of the total receipts from national forests available for (1) 25 percent fund for payments to States for benefit of roads and schools, (2) 10 percent fund for construction and maintenance of roads and trails in States from which proceeds are derived, and (3) appropriations from forest receipts for acquisition of lands, cooperative range improvements, and special payments to Minnesota counties in which Superior National Forest lands are located.

[5] Amounts shown represent 65 percent of the receipts from the Tongass National Forest. The rest of these receipts, 35 percent, are distributed to Alaska (25 percent) and to the fund for construction and maintenance of roads and trails (10 percent) in accordance with Public Law 758, 84th Cong.

[6] For payment to counties in which such lands are located.

TABLE 7.—*Appropriations for research and education, fiscal years 1950 through 1958, and budget estimates, 1959* [1]

[Thousands of dollars]

Agency or activity	1950	1951	1952	1953	1954	1955	1956	1957	1958	Budget estimates, 1959	Increase (+) or decrease (−), 1959 compared with 1958
Research:											
Agricultural Research Service (exclusive of State experiment stations, shown below)	33,989	32,570	32,600	32,886	33,788	38,550	[2] 41,914	53,786	[3] 57,795	[3] 60,745	+2,950
Farmer Cooperative Service	322	367	277	278	265	265	278	380	399	399	
Forest Service	6,188	6,110	6,253	6,235	6,217	7,277	8,392	10,155	11,835	12,128	+293
Agricultural Marketing Service	5,501	5,259	4,724	4,835	4,896	6,133	7,159	8,207	8,541	8,519	−22
Foreign Agricultural Service	143	144	135	138	152	180	186	347	364	364	
Library	251	243	241	241	227	239	250	275	289	289	
Deduct amounts included in above figures transferred for pay act costs						−88					
Total, above items	46,394	44,693	44,230	44,613	45,545	52,556	58,179	73,150	79,223	82,444	+3,221
State experiment stations:											
Payments to States and Territories for experiment station research under the Hatch Act as amended by the act of August 11, 1955, and under sec. 204 (b) of the Agricultural Marketing Act of 1946	12,698	12,716	12,670	12,696	13,722	19,454	24,754	29,504	30,354	30,354	
Penalty mail								250	250	250	
Total, above items	59,092	57,409	56,901	57,309	59,266	72,010	82,933	102,904	109,826	113,048	+3,221
Major research facilities for investigation of foot-and-mouth and other animal diseases (Plum Island and Ames, Iowa)			10,000				250	16,250			
Total, research	59,092	57,409	66,901	57,309	59,266	72,010	83,183	119,154	109,826	113,048	+3,221
Education: Extension Service, cooperative extension work, payments and expenses:											
Payments to States, Hawaii, Alaska, and Puerto Rico	32,132	32,148	32,101	32,266	32,256	39,675	45,475	49,865	50,715	50,715	
Retirement costs for extension agents									5,260	5,479	+219
Penalty mail					1,685	1,943	1,650	2,164	2,164	1,868	−296
Federal Extension Service	1,408	1,433	1,442	1,326	1,349	1,921	1,980	2,000	2,097	2,097	
Deduct amounts included in above figures transferred for pay act costs						−782	−985	−764			
Total, education	33,539	33,581	33,543	33,592	35,290	42,757	48,120	53,265	60,236	60,159	−76

Total, research and education	92,631	90,990	100,444	90,901	94,556	114,767	131,303	172,419	170,062	173,207	+3,145
Total, research and education, exclusive of major research facilities indicated above	92,631	90,990	90,444	90,901	94,556	114,767	131,053	156,169	170,062	173,207	+3,145

[1] Amounts adjusted for comparability with the appropriation structure in the 1959 budget.

[2] In addition, $62,000 was available for research by transfer from other appropriations under authority of Sec. 702 (b) of the Department of Agriculture Organic Act of 1944. Of this sum, $50,000 was for research on cantaloup disease and insect problems in the Southwest and $12,000 for research to support the vesicular-exanthema-eradication program.

[3] In addition, it is estimated that up to $2,000,000 in 1958 and $5,000,000 in 1959 of foreign currencies received from the sale of surplus agricultural commodities will be used for utilization research abroad.

NOTE.—Details may not add to totals shown due to rounding.

Mr. GRANT. The loan authorizations which I have mentioned earlier reflect a decrease of $67.5 million—$33 million in rural electrification loans and $34.5 million in Farmers' Home Administration loans.

RURAL ELECTRIFICATION LOANS

In the case of rural electrification loans, the budget estimate anticipates that legislation will be submitted to the Congress for its consideration which would make it possible for the borrowers to obtain funds from private sources through insurance of loans by the Federal Government, or by the subordination of prior liens.

Mr. WHITTEN. Does the budget estimate show how much additional cost will be involved to the local REA borrowers as a result of requiring them to borrow from private banks?

Mr. GRANT. I have not seen any estimate.

Mr. WHITTEN. Is there any estimate as to what rate of interest they are likely to have to pay?

Mr. GRANT. I don't know what they will pay.

Mr. WHITTEN. Of course, the bank and private lender would in no way run any risk, in that these loans would be insured by the Federal Government. If the Federal Government has to insure the loan, would there be any diminution in the liability that the Government would have for the loan? In other words, is there any greater chance for the Government losing where they insure the banks' loan than where the Government lends it in the first instance?

Mr. GRANT. I don't believe there would be any change in the risk that would be entailed by the Federal Government. I think the principal factor in the proposed legislation is the fact that the funds will not have to be charged against the overall budget for the Federal Government.

Mr. WHITTEN. It would be a public debt, in that the Government would be obligated. But, under the technical rules governing budgets, you would not have to carry it?

Mr. ROBERTS. It would only be a contingent liability, as I understand it, Mr. Whitten, because the Government would stand back of the loan only in the event the co-op failed to pay.

Mr. WHITTEN. You folks are not the ones for me to argue this with, but the REA is to pay a higher rate of interest, which in all likelihood would be a source of income to the private institution that might advance the money. The lending institution, in turn, would run no risk insofar as the Government had guaranteed the loan. However, it might affect your accounting if the Government promised to pay. Its liability would be just as great as though it were handled like it is now. So it strikes me as just another place where profits would be given, with practically no risk, to certain private lending institutions. There would be a greater cost to the borrower, and the public liability would be the same or greater, because they would guarantee a loan at a little higher rate of interest. But you folks are not the ones to argue over that with.

Mr. ROBERTS. It is recognized that there will be an increase in interest rates because, going out on the private money market the REA co-ops will have to pay the going rate of interest for loans of this character.

Mr. WHITTEN. Actually, where it guarantees a loan which the REA cooperative has made with some private lender, the Government

would have to guarantee the loan at a higher rate of interest, which would increase its liability equally as much as it might increase the rate of interest that the Government charges now.

But, again, that is not a matter that we should belabor at this point. We will take it up with the REA people.

You might proceed with your statement.

FARMERS' HOME ADMINISTRATION LOANS

Mr. GRANT. I might mention that all of the FHA loan authorizations under this bill, the farm ownership, the farm operating, and the soil and water conservation loans, are all under a single figure, and it is believed that in that way the Farmers' Home Administration will be able to make adjustments to meet some of their problems that arise from time to time during the year, by having some flexibility between the various types of loans.

Mr. WHITTEN. That is one way of looking at it. Another way would be to let them strangle one phase of the activities and give all the money to another. Would that not be true?

Mr. GRANT. There would be flexibility in shifting between the various types of loans.

Mr. WHITTEN. There are the farm ownership loans, the farm operating loans, which are for production and subsistence, and the soil and water conservation loans, all of which you would like to group together, so as to give the Department the right to shift funds from one to the other, or vice versa. I note the amount you recommend for such loans is $175 million for all three. That is $34.5 million less than the total for the 3 in 1958, and it is $5 million less than the amount for the 1 category, farm operating loans for 1958. To show how far reaching it is, we have the water facilities loans which heretofore have been limited to $5.5 million. But if you have your way—and I am talking insofar as restrictions in law are concerned—you can increase the $5.5 million program to $175 million.

Mr. GRANT. Yes, sir; legally it could be done under the proposal. But that is not our intent.

Mr. WHITTEN. I will say this: You are not very modest in the authority that you request.

Mr. ANDERSEN. I would say that we should determine for the record they are not very moderate in their request.

Mr. WHITTEN. I was seeking a word to fit that and you helped me out, Mr. Andersen. Thank you.

Mr. ROBERTS. I think the relationship of insured loans is important here.

Mr. GRANT. Yes. I was going to say that in the case of the Farmers' Home Administration, it is anticipated that legislation will be proposed which will permit a further extension of the insured loan program, particularly with farm-ownership loans and for soil and water conservation loans. That legislation is still being developed.

Mr. ANDERSEN. Now, Mr. Grant, even if that is proposed, it is nebulous as yet; it is not law?

Mr. GRANT. That is right.

Mr. ANDERSEN. And we, on this subcommittee, certainly cannot take that into consideration as anything offsetting the amount of loans which are requested in the record. I, for one, want to be sure

we have adequate loan authorities. Our credit programs are becoming more essential every day.

Mr. WHITTEN. You might continue now, Mr. Grant.

Mr. ROBERTS. Mr. Chairman, if I may, in response to the question Mr. Andersen raised, I would like to point out that actually, instead of increasing the direct soil and water conservation loans proposed for 1959 under this proposal, there is a proposed reduction of a half million dollars. So it would not necessarily follow that we would favor one group as against the other. We would try to take care of the most urgent needs of all three programs.

Mr. ANDERSEN. There is no question about that, Mr. Roberts, but as the chairman has brought out, you do have far wider latitude by this new request for flexibility than you have had previously, and it does take away from the Congress, and from the seven of us here present, the right to cinch down any specific appropriation for a certain purpose.

Personally, I think we are wide open, as it is, and I might tell you ahead of time I would not agree to any such appropriation as you request here.

ANTICIPATED SUPPLEMENTAL ESTIMATES, 1958, FOR REPAYMENTS TO CCC, FISCAL YEAR 1958

Mr. GRANT. Mr. Chairman, moving on to "Special activities," they are covered briefly in the bottom of table 1.

You will note that the 1958 Appropriation Act for the Department of Agriculture included $843,076,238 for repayment to the Commodity Credit Corporation for various special activities.

It is anticipated that supplemental appropriations will be made in the current fiscal year, and the estimates were submitted to you about 10 days or so ago, totaling $2,313,131,868 for the same items in 1958.

The purpose of these 1958 supplemental appropriations is to be sure that the Commodity Credit Corporation's borrowing power is restored so that by June 30 we will not be in the position of having to limit or hold down the Commodity Credit Corporation's regular operations.

These special activities consist of repayment for advances from the Commodity Credit Corporation to the Agriculture Research Service for the vesicular exanthema in swine and brucellosis eradication programs for the fiscal year 1957.

The net increase of $361,000 represents the difference between the 1956 and 1957 program costs. The increase is due to the brucellosis eradication program.

There is an increase of $1,059,000 for repayment of advances to the Agricultural Marketing Service for costs incurred in the fiscal year 1957 for inspecting and grading tobacco, and classing cotton. This represents an increase in the level of the 1957 program over the 1956 program.

The largest item in the category of "Special activities" is for the sale of surplus agricultural commodities for foreign currencies. This is an increase of $653,841,000 in the anticipated 1958 supplemental, representing an increase in the costs or expenses incurred by the Commodity Credit Corporation for the 1957 program above 1956 costs.

Mr. ANDERSEN. Might I ask you a question at that point?

Do the figures that we are looking at, the $1,290 million representing that cost—does that include all items of cost and accrued charges accumulated by the Commodity Credit Corporation in connection with those particular commodities, as sent abroad?

Mr. GRANT. Yes, sir; it represents the corporation's investment in the commodities.

Mr. ANDERSEN. Together with handling charges and storage charges of years gone by?

Mr. GRANT. That is right, as well as ocean transportation and the costs of any commodities which are exported from private stocks.

The Commodity Credit Corporation reimburses the exporter, if it involves shipments from private stocks.

So, it represents the total cost of the Commodity Credit Corporation, and no part of the Coproration's costs as indicated under the item for restoration of capital impairment is due to Public Law 480 operations.

Mr. ANDERSEN. In other words, Agriculture, here in its appropriation, is being asked to make a contribution of at least half of this amount to the welfare of our foreign policy; is it not?

When I say "half of this amount" I assume that where we send that amount of products abroad and take the world price for it, we would probably receive at least six or seven hundred million dollars for that food on almost any market, but here we are taking the whole loss for it in this particular appropriation bill?

In other words, Agriculture, as such, is donating around six or seven hundred million dollars, through the Commodity Credit Corporation, to the other peoples of the world, above what we could have obtained for the same food, had it been put on the markets of the world, were it not for, of course, our State Department considerations? Is that more or less correct?

Mr. GRANT. Yes, sir.

Mr. ANDERSEN. After all, this $1,290 million worth of food does have some dump value, does it not, say, if we were to dump it in the markets abroad?

Mr. GRANT. Yes.

Mr. ANDERSEN. But here we are appropriating every dime that it cost the Commodity Credit Corporation, and all of the expense accruing to those millions of bushels of wheat, especially, and bales of cotton, and every dime of that is charged to this appropriation bill for Agriculture. At the same time, in the minds of the general public, we are not given any consideration whatsoever for making this donation possible. Do you see my line of reasoning?

Mr. GRANT. Yes, sir. Now, I don't believe I have a computation of what would have been obtained in the way of dollars for these commodities.

Mr. ANDERSEN. Would it be possible, at some future date, Mr. Roberts, to get an approximation of what we might consider the dump value of these particular commodities abroad, say, for example, if they were sold abroad without regard to the foreign currency issue?

Mr. ROBERTS. If you will take a look at footnote (5) on this table, Mr. Andersen, I think it does indicate that the commodities have this value you mentioned. It indicates that the dollar equivalent of commodities sold for foreign currencies, from the beginning of the program through June 30, 1957, computed at the rates specified in the various agreements of the foreign countries, total $1,411 million. I think that that is as good an evaluation as one could place on it.

There is no question but what this program has a value to the United States in connection with its foreign aid and foreign policy.

Mr. ANDERSEN. You never see any of these magazines, or any of these editorial writers even hint at the fact that through this appropriation bill, we are directly making an appropriation which should really be added to what we term "foreign aid," today, by all rights. I do not say that all of it should be added.

Mr. WHITTEN. In that connection, Mr. Andersen, I read something the other day that struck me as being so very, very true.

We have been making certain appropriations to aid other countries, world conditions being what they are in recent years. If we had not had on hand those surpluses the American farmer would have been receiving incentive payments trying to get him to produce to meet our overseas commitments.

Mr. ROBERTS. It is one of these difficult areas. It involves a determination of what we would have done if we didn't have these surpluses, and that is very difficult for anyone to say.

Mr. ANDERSEN. I would think, Mr. Roberts, that the State Department appropriation bill should have in it at least half of this amount to reimburse the Commodity Credit Corporation for part of this grain sent abroad. I do not think that all of it should be chargeable to our appropriation bill. That would take care of the thing. I am willing to go 50–50.

Mr. WHITTEN. I am in agreement with Mr. Andersen about that. You may proceed.

FINANCING SPECIAL ACTIVITIES

Mr. ROBERTS. This does point up another matter which I hope the committee will keep in mind, as it considers this budget estimate. The Commodity Credit Corporation has, over the past number of years, been used increasingly as a bank for other programs. It has been used as a bank for burcellosis, for example, and the soil-bank program which was adjusted with the beginning of the current fiscal year. If this budget is adopted as proposed, we will get the brucellosis program out of the CCC banking operations beginning with the fiscal year 1959. I think that to the extent it is possible to do so in the next few years it would be desirable to get CCC out of the banking business on a lot of these other programs. It would be much more desirable, I think, to have the programs financed by a direct source, rather than through CCC.

What I am saying is difficult to apply to the Public Law 480 program, because the greater part of the commodities used in that program are from inventories of CCC.

Mr. GRANT. The first item included under that summary of "All other" under special activities is the cost of the International Wheat Agreement, which reflects a reduction of $2,934,000. Under title II of Public Law 480, there is the item "Donation of commodities to friendly peoples for emergency famine relief." The cost of this program in 1957 was $125,761,000, or an increase of $31,278,000 above 1956 costs.

There is also an item in the 1957 program of $218,946,000, representing the cost of commodities bartered for strategic materials which were transferred to the supplemental stockpile, for which an appro-

priation is requested to reimburse the Commodity Credit Corporation in this anticipated supplemental for 1958.

There is also a small item of slightly less than $5,000 for grain transferred and made available to the Department of Interior for migratory waterfowl.

Mr. ANDERSEN. Why wouldn't the request to replace, or to refund to the Commodity Credit Corporation the amount expended by bartering for critical materials come before us in another appropriation bill? Why put it in here?

Mr. GRANT. The legislation on that program provided that the Corporation shall be reimbursed for the cost of the commodities transferred, and did not specifically indicate which agency would request the appropriation. After consideration by the Budget Bureau, and other agencies involved, it was decided the appropriation request should be made by the Department of Agriculture.

Mr. ANDERSEN. And certainly it makes our agricultural picture look all the worse. What is that figure?

Mr. GRANT. $218,946,145.

Mr. ANDERSEN. Another $218,946,145 added to this figure, which is a further donation by the agriculture appropriation bill added to the general welfare of the world plus that $600 million I objected to, above and beyond the dump value of the commodities program.

I just wanted to have that in the record.

Mr. SANTANGELO. Maybe this witness can give me some information as to what resistance there has been as to purchasing these surplus commodities before they were given away to foreign countries. It was suggested during our discussion that we should endeavor to sell some of these surplus commodities before we gave them away, and I would like to know what the Department is doing along that line, whether there is any resistance to purchasing, or deliberate resistance to purchasing?

Mr. GRANT. I do not have specific information on the question you raised. I am sure that the representatives of the Commodity Stabilization Service who will present these hearings, as well as those of the Foreign Agricultural Service, will be able to answer your question.

The last item in this section of special activities is the appropriation requested in the supplemental estimate for 1958 of $567,500,000 to reimburse the Corporation for costs through fiscal year 1957 for the soil bank programs.

You will recall that section 120 of the Soil Bank Act provided that the cost of operations through fiscal year 1957 would be paid by Commodity Credit Corporation funds.

I believe, Mr. Chairman, that is all that I have in the way of comments to make. I will be glad to try to answer any questions that the members of the committee may have.

Mr. WHITTEN. There are a number of questions which I might ask at this point, after which we can pass the witness around.

CONTROL OF EXPENDITURES IN FISCAL YEAR 1958

Last year, the Director of the Budget, after Congress had acted on the appropriation, issued a directive to hold spending to the 1957 fiscal year level. What was the effect of that and what is the present status of those funds in the program?

Mr. GRANT. As a result of that directive, Mr. Chairman we established, in the Department, certain controls on the obligation of funds.

As you know, appropriations are required to be apportioned, under the Antideficiency Act, by quarters. We also broke this quarterly apportionment into two items; one for personal services and the other is for all other expenses. The agencies make quarterly reports on their activities within this breakdown.

Mr. WHITTEN. You explained how you did it. What I want to know is what you did?

Mr. GRANT. All right. There were reserves for savings of $544,686 in the items for which appropriations are made by this committee. In addition, there was $1,375,000 in reserves for the Forest Service for forest protection and utilization. Of this latter amount, $1,225,000 has been released for control of forest pests.

Mr. WHITTEN. We will have that table inserted in the record at this point.

Mr. GRANT. Yes.

(The information is as follows:)

Budgetary reserves for savings, fiscal year 1958 as of Jan. 15, 1958

	Amount
Agricultural Research Service:	
Salaries and expenses	$100,000
State experiment stations (administrative expenses)	6,000
Extension Service	200,426
Soil Conservation Service, conservation operations	184,000
Agricultural Marketing Service, marketing research and service	42,500
Rural Electrification Administration, salaries and expenses	11,760
Total, items in Agricultural Appropriation Act	544,686
Forest Service, forest protection and utilization	[1] 1,375,000
Total, Department of Agriculture	1,919,686

[1] Of this amount, $1,225,000 will be used in 1958 for control of forest pests.

Mr. WHITTEN. That is where the freezing took place.

Mr. GRANT. In addition, there was a reduction of $2,600,000 in the funds apportioned for transfer from the Commodity Credit Corporation for the brucellosis eradication program.

Mr. WHITTEN. They have been matched against the budget request for the next fiscal year. Have we been requested, in any way, to reappropriate them, or will they revert to the Treasury?

Mr. GRANT. The amounts in reserve would be returned to the Treasury. This $544,686 I mentioned would be returned to the Treasury.

Mr. ROBERTS. Pardon me. They are noted in the explanatory notes, so that the committee can identify them and relate them to each item, as you consider the individual appropriations.

ANTICIPATED SUPPLEMENTAL APPROPRIATIONS, FISCAL YEAR 1958

Mr. WHITTEN. Would you give us a brief statement on the supplemental items in House Document No. 313, and tell me briefly what each is? Also, you might advise us as to whether we can expect more supplementals in the remainder of the fiscal year.

Mr. GRANT. The largest item is the "Special activities," which I just discussed a few minutes ago.

Mr. WHITTEN. I might shorten this today by asking you to put in the record a statement on this point. Tomorrow morning, we are

having a hearing on these particular items, and shouldn't take any time on it today.

Anticipated supplementals, fiscal year 1958, H. Doc. 313:	
Agricultural Research Service: Reimbursement to Commodity Credit Corporation for advances for animal disease eradication activities—To repay CCC for advances for eradication of brucellosis and vesicular exanthema in 1957	$18, 942, 413
Agricultural Marketing Service: Reimbursement to Commodity Credit Corporation for advances for grading and classing activities—To repay CCC for advances for grading tobacco and classing cotton in 1957	1, 139, 982
Soil-bank programs: Reimbursement to Commodity Credit Corporation for costs incurred under soil-bank programs—To repay CCC for transfers to finance soil-bank programs in 1957	567, 500, 000
Commodity Stabilization Service: Special commodity disposal programs—To repay CCC for costs of certain commodity-disposal programs in 1957, including International Wheat Agreement ($89,996,331), emergency famine relief to friendly peoples ($125,761,388), sales of surplus agricultural commodities ($1,290,841,000), transfer of bartered materials to supplemental stockpile ($218,946,145), and grain for migratory waterfowl ($4,609)	1, 725, 549, 473
Total, anticipated supplementals, fiscal year 1958	2, 313, 131, 868

Mr. WHITTEN. Now, proceeding on, what other supplementals may we expect?

Mr. GRANT. I do not know of any other supplemental estimates at this time. There may be some circumstances arise which might require additional supplemental estimates, but I don't know of any.

WATERSHED PROTECTION

Mr. WHITTEN. I noted in your earlier statement this $11 million carryover in 1959 for watershed protection. This comes from the fact that, in effect, you will recapture about $11 million, which you will no longer have under this approach. Why did this carryover ever develop? Everybody is talking about the slowness and need for funds in that program.

Mr. GRANT. Generally, as I understand it, it came about because of an inability to process or finish the planning work on the watersheds at the rate which had originally been anticipated.

During fiscal year 1957, there were 42 watersheds on which plans had been completed and approved to the point where the work could be initiated. As a result of amendments in the basic law by the Congress last year, it was necessary to rework a number of the plans, which set them considerably behind the original schedule.

Mr. WHITTEN. Do you know of anything that Congress could do to expedite these projects? The rate of progress, according to general opinion, has been much slower than had been anticipated; certainly, it has been much slower than many people desired. Is there anything you can tell us that would speed up the end result in this work?

Mr. GRANT. As you know, this was a new program, and it took some time to effect the procedures, and so forth. That is now moving along very satisfactorily, or at a much faster rate, and I believe that the rate of progress will continue to increase. However, the budget does contemplate that the number of new starts on projects will be 60 in 1958 and 60 in 1959.

Mr. WHITTEN. I will not belabor that issue, in view of the fact this subject will be gone into much more thoroughly later on. I had

anticipated asking you about the ACP program and the conservation reserve. The total is the same for the announced program in the budget as for last year, except that you have robbed Peter to pay Paul.

In your budget recommendations, you take $125 million away from ACP and increase the conservation reserve in an equal amount.

Now, at this point in the record, I would like to have you give us figures to show how many farmers participated in the ACP program for the latest period you have. I would like, also, to have listed the amount of farmer contribution to the work.

Then I would like to know the number of farmers who have participated in the conservation reserve. I would like to have that by States. Also, I want to know what, if anything, those farmers have contributed to the conservation reserve. I would like to have that in the record.

Mr. GRANT. We will get that for you.

(The information is as follows:)

The following table shows for each State the number of participants in the 1956 agricultural conservation program and the amount of ACP assistance received by them for carrying out conservation practices. The 1956 ACP is the latest year for which final reports are available at this time, but it is believed that the participation and payments under that program are typical or representative of the programs for 1957 and for 1958.

Participation under 1956 agricultural conservation program [1]

State and region	Number of participants	ACP conservation practices assistance to farmers (thousands) [2]	State and region	Number of participants	ACP conservation practices assistance to farmers (thousands) [2]
Maine	4,705	$953	Kentucky	48,732	$7,077
New Hampshire	1,892	524	Tennessee	55,866	5,806
Vermont	7,158	1,187	Alabama	38,490	6,020
Massachusetts	2,877	556	Mississippi	28,936	6,688
Rhode Island	338	64	Arkansas	42,385	5,097
Connecticut	1,931	449	Louisiana	20,857	4,324
New York	20,096	4,859	Oklahoma	35,807	7,535
New Jersey	3,234	714	Texas	78,476	19,921
Pennsylvania	26,008	5,255			
North Atlantic	68,239	14,561	South Central	349,549	62,468
Ohio	41,096	5,880	Montana	12,100	2,846
Indiana	59,821	5,936	Idaho	6,113	1,748
Illinois	74,208	8,242	Wyoming	4,624	2,049
Michigan	19,221	3,746	Colorado	10,803	3,347
Wisconsin	26,258	4,809	New Mexico	3,591	1,855
Minnesota	67,661	6,101	Arizona	1,797	1,512
Iowa	57,289	9,569	Utah	3,664	1,317
Missouri	56,817	9,417	Nevada	601	300
North Dakota	47,522	4,582	Washington	8,932	2,406
South Dakota	36,431	5,067	Oregon	6,275	2,199
Nebraska	37,912	6,429	California	7,966	4,686
Kansas	21,773	6,529			
North Central	546,009	76,307	West	66,466	24,265
Delaware	1,699	322	Alaska	118	29
Maryland	8,579	1,305	Hawaii	332	112
Virginia	25,666	4,589	Puerto Rico	12,604	949
West Virginia	13,645	1,710	Virgin Islands	44	9
North Carolina	71,946	6,943			
South Carolina	15,032	3,112	Insular	13,098	1,099
Georgia	39,505	7,550			
Florida	10,817	2,484	Total	1,230,250	206,715
			Naval stores	2,566	458
South Atlantic	186,889	28,015	Grand total	1,232,816	207,173

[1] Regular program only. Excludes farmers who received emergency conservation measures from emergency funds.

[2] Excludes funds for Soil Conservation Service 5-percent agreements.

LEVEL OF RATES OF COST SHARING UNDER THE AGRICULTURAL CONSERVATION PROGRAM

In general, the maximum rate of cost sharing for each conservation practice included in the agricultural conservation program is 50 percent of the average cost of performance. Provision is made for higher rates of cost sharing for practices which have long-lasting conservation benefits and from which the returns to the farmer or rancher are remote. Provision is also made for higher rates on an individual county basis if a higher rate is needed to introduce a greatly needed new conservation practice into the county or to bring about a greatly needed increase in the extent to which the practice otherwise would be carried out. In no case have these higher rates of cost sharing been permitted to exceed 80 percent of the average cost. Although States have made substantial use of the provisions for higher rates, the average rate of cost sharing for all agricultural conservation program practices is around 50 percent of the average cost of performance. This is accounted for by the fact that rates of cost sharing for some practices in some States have been set at less than 50 percent of the average cost of performing the practices. On this basis, the value of the contributions made by farmers in carrying out practices is at least equal to the amount of Federal cost sharing assistance.

LEVEL OF RATES OF COST SHARING UNDER THE CONSERVATION RESERVE PROGRAM

The maximum authorized rate of cost sharing for each conservation practice included in the conservation reserve program is 80 percent of the average cost of performing the practice. As a general rule most States have established rates of cost sharing at or near this authorized maximum rate of cost sharing, so that on a national basis the farmers' contributions are about 20 percent of the total cost of the practices carried out.

(NOTE: Additional information may be found in the appendix p. 425).

GENERAL ACCOUNTING OFFICE RECOMMENDATIONS ON AGRICULTURAL CONSERVATION PROGRAM

Mr. WHITTEN. The General Accounting Office recommended a certain change in the ACP program, whereby the ACP would put up its own money for the purchase of conservation material, rather than borrow from CCC, and have to repay. I notice that is not recommended in the budget. What is the status of it?

Mr. GRANT. That item is still under consideration, Mr. Chairman. It involves an increase in the appropriation for whatever year it was first put into effect. It would cover the funds needed for advance conservation material and services rather than borrowing from CCC as is now the practice.

Mr. WHITTEN. It would show up as an increase in the year that you did it.

Mr. ROBERTS. I think the Department's position on this item, Mr. Chairman, is that the change recommended by GAO would be satisfactory with us any time the Congress wishes to make it. We do not see any savings in it, but the first year in which the adjustment was made it would require a substantial increase in the appropriation.

Mr. NATCHER. Mr. Chairman, again I want you to know that I consider it an honor and privilege to serve with you on the Subcommittee on Agricultural Appropriations.

I also want to join with you in welcoming our new member, Mr. Santangelo. I believe, Mr. Chairman, that in order to protect agriculture, we must continue our research, marketing and utilization programs.

Agriculture has made tremendous gains in its ability to produce. This has been brought about in part by research.

I believe, Mr. Chairman, that it is imperative that we find markets by the same means, and increase our industrial use of agricultural commodities.

UTILIZATION RESEARCH

Mr. Grant, the budget proposal for 1959 contains approximately how much money that will be used directly or indirectly to carry out the proposals made by the commission setup for increased industrial use of agricultural commodities?

Mr. GRANT. The total funds proposed in the budget for utilization research is $25,830,000. That is about $18,215,000 in Agriculture Research Service, by way of direct appropriation and $2,615,000 in Forest Service, and then the item of $5 million for foreign currencies for research in overseas laboratories.

Now, all of that will be applied to utilization research, directed toward finding new and expanded uses of agricultural commodities.

Mr. ROBERTS. Mr. Natcher, may I elaborate further on that?

Mr. Grant has given you the totals. I think it would be well to add to what he has said the fact that the budget for 1959 includes an increase of $5 million in direct appropriations for utilization research.

In 1959 there will also be another $5 million through the use of foreign currencies for basic and developmental research in utilization in selected foreign countries. Then we hope that that program on foreign currencies will get underway this year to the extent that we might allocate as much as $1,500,000 to $2 million to it in the current fiscal year. So that in the next 18 months we hope to get research underway which will be an increase of about $11 million or $12 million over what we are doing now on utilization research.

RATIO OF BUDGET FOR AGRICULTURE TO OVERALL BUDGET, 1959

Mr. NATCHER. Yes. Mr. Grant, the overall budget proposals for fiscal year 1959 total some $73,800 million, I believe.

Mr. GRANT. Yes.

Mr. NATCHER. What is the percentage, as far as Agriculture is concerned?

Mr. GRANT. In the case of the Department of Agriculture, it is 6.7 percent of the total of $73,934 million.

Mr. NATCHER. Mr. Grant, if you will—with the permission of the chairman—I wish you would insert in the record at this point the percentage total after deducting loan authorizations and restoration of capital impairment for CCC? Can you insert that in the record?

Mr. GRANT. I will do so.
(The information is as follows:)

1959 budget estimates

[Millions of dollars]

	New obligational authority		Expenditures	
	Amount	Percent	Amount	Percent
Department of Agriculture:				
REA and FHA loan authorizations	381.0	0.5	554.8	0.7
Restoration of capital impairment, CCC	1,760.4	2.5	(1)	
All other, Department of Agriculture	1,965.2	2.7	4,426.5	6.0
Total, Department of Agriculture	4,106.6	5.7	4,981.3	6.7
All other Federal agencies	68,345.4	94.3	68,952.7	93.3
Total 1959 budget	72,452.0	100.0	73,934.0	100.0

[1] This is a nonexpenditure transaction.

APPROPRIATIONS FOR AGRICULTURAL RESEARCH SERVICE, AGRICULTURAL MARKETING SERVICE, AND PAYMENTS TO STATES, EXTENSION SERVICE, 1949–57

Mr. NATCHER. With your permission, Mr. Chairman, I would also like to have Mr. Grant insert an appropriate chart in the record at this point, to show the appropriations for the Agricultural Research Service, and the Agricultural Marketing Service, beginning with the year 1949 and extending through the year 1957, and this chart should show the percentage increase of the two totals.

I know, Mr. Chairman, of your interest in research and marketing, and the same applies to the other members of this committee. I believe, with your permission, Mr. Chairman, it would be appropriate to have a chart at this point in the record setting forth this information.

In addition to that, Mr. Chairman, I would like, with your permission, to have the chart also show the payments made to the extension departments of the States, the amounts from 1949 through 1957, showing the increases.

Mr. GRANT. I would be glad to do so.
(The information is as follows:)

Appropriations, 1949 through 1957 for Agricultural Research Service, Agricultural Marketing Service and payments to States, Extension Service

[NOTE.—Amounts are adjusted for comparability with the appropriation structure in the 1959 budget estimates]

[Millions of dollars]

Agency or Item	1949	1950	1951	1952	1953	1954	1955	1956	1957
Agricultural Research Service:									
Salaries and expenses	$64.0	$66.9	$63.9	$65.5	$65.9	$65.9	$71.6	$77.9	$99.2
State experiment stations (principally payments to States)	10.7	12.7	12.7	12.7	12.7	13.7	19.5	24.8	29.8
Research facilities (Plum Island)	0.5			10.0					
Animal disease laboratory facilities (Ames, Iowa)								0.3	16.3
Working capital fund, Agricultural Research Center			0.3						
Total, Agricultural Research Service	75.2	79.6	76.9	88.2	78.6	79.6	91.1	103.0	145.3
Percent change from preceding year		+5.9	−3.4	+14.7	−10.9	+1.3	+14.4	+13.1	+41.1
Percent change 1957 over 1949									+93.2
Agricultural Marketing Service:									
Marketing research and service	$17.6	$18.6	$18.7	$18.8	$19.1	$20.6	$22.2	$24.5	$26.5
Payments to States	0.5	0.6	0.6	0.5	0.5	0.6	0.9	1.0	1.2
School lunch program	75.0	83.5	83.5	83.4	83.4	83.2	83.2	83.2	100.0
Total, Agricultural Marketing Service	93.1	102.7	102.8	102.7	103.0	104.4	106.3	108.7	127.7
Percent change from preceding year		+10.3	+0.1	−0.1	+0.3	+1.4	+1.8	+2.3	+17.5
Percent change 1957 over 1949									+37.2
Extension Service:									
Payments to States, Hawaii, Alaska, and Puerto Rico	$30.8	$32.1	$32.1	$32.1	$32.3	$32.3	$39.7	$45.5	$49.9
Percent change from preceding year		+4.2			+0.6		+22.9	+14.6	+9.7
Percent change 1957 over 1949									+62.0

Mr. GRANT. I might mention that table No. 7 in this book of tables, includes information on research and extension but does not include information on marketing.

Mr. NATCHER. That will be fine—and let your tables just show the points I requested, if you will, please.

Mr. GRANT. Yes, sir.

Mr. NATCHER. Mr. Grant, I want to join with my chairman in welcoming you before this committee in your new capacity. You are following in the footsteps of a fine gentleman. I believe you will do just as fine a job as he has done.

Mr. WHITTEN. Mr. Andersen.

Mr. ANDERSEN. Mr. Chairman, you have been very kind in permitting me to interrupt as we went along. I have no further questions.

Mr. WHITTEN. Mr. Horan?

RESTORATION OF CCC CAPITAL IMPAIRMENT

Mr. HORAN. I would like to know just how much we are spending for repair of the Commodity Credit Corporation's capital structure?

Mr. GRANT. The appropriation requested for 1959 of $1,760,399,886 is to restore the capital impairment of the Corporation, as of June 30, 1957.

Mr. HORAN. Now, what is involved here in the special activities at the bottom of this master chart?

Mr. GRANT. Those are the items for sales of surplus commodities for foreign currencies, and donations of surplus commodities to friendly people, and other similar items when CCC funds were used pending subsequent repayment.

Mr. HORAN. That is foreign aid?

Mr. GRANT. It includes the costs for International Wheat Agreement, transfer of bartered materials to supplemental stockpile, brucellosis eradication, and other similar programs.

Mr. HORAN. Including the budget for next year and supplementals, how much are we paying to the Commodity Credit Corporation?

Mr. GRANT. That is approximately $4 billion.

Mr. HORAN. Approximately $4 billion, and you are going to break that down?

Mr. GRANT. Yes.

Mr. HORAN. So that we know what we are doing in each category?

Mr. GRANT. Well, each one of the items will be set forth separately; yes, sir.

Mr. WHITTEN. In line with the request of the gentleman from Washington, Mr. Horan, I think it would be well to put in the record at this point a detailed breakdown of the activities of the Commodity Credit Corporation for which restoration is made. That table will appear, I am sure, later in connection with the presentation of the Commodity Credit Corporation, but we might as well have it appear here also.

(The table referred to follows:)

Restoration of capital impairment, Commodity Credit Corporation (estimate included in 1959 budget)	[1] $1, 760, 399, 886
Anticipated supplemental appropriations in 1958 for repayment to Commodity Credit Corporation for authorized programs in 1957:	
Agricultural Research Service:	
For advances for eradication of foot-and-mouth disease and vesicular exanthema in swine	1, 393, 490
For advances for eradication of brucellosis in cattle	17, 548, 923
Agricultural Marketing Service:	
For advances for costs incurred for inspecting and grading tobacco and classing cotton	1, 139, 982
Commodity Stabilization Service:	
For special commodity disposal programs (foreign aid items):	
International Wheat Agreement	89, 996, 331
Emergency famine relief to friendly peoples (title II, Public Law 480, approved July 10, 1954)	125, 761, 388
Sales of surplus agricultural commodities for foreign currencies (title I, Public Law 480, approved July 10, 1954)	1, 290, 841, 000
Transfer of bartered materials to supplemental stockpile	218, 946, 145
Transfer of hay and pasture seeds (Public Law 524, approved July 26, 1954)	----------
Grain for migratory waterfowl	4, 609
Soil bank programs	567, 500, 000
Total, anticipated supplementals for repayment to Commodity Credit Corporation	2, 313, 131, 868

[1] For restoration of CCC capital impairment as of June 30, 1957. Realized losses and other expense covered by the estimate are as follows:

	Millions
Price-support program:	
Basic commodities:	
Corn	$247
Cornmeal	21
Cotton	421
Peanuts	17
Rice	65
Tobacco	(*)
Wheat	96
Wheat flour	40
Total basic	907
Mandatory nonbasic commodities:	
Honey	(*)
Butter (including oil)	26
Cheese	78
Milk, nonfat dry	110
School milk program	57
Armed services and veterans milk	16
Wool	9
Total mandatory nonbasic	296
Other nonbasic commodities:	
Barley	12
Beans, dry edible	14
Cottonseed products	8
Flaxseed	2
Linseed oil	(*)
Oats	25
Rye	5
Seeds	2
Sorghums, grain	27
Other	1
Total other nonbasic	96
Total price support program	1, 299
Commodity export program	147
Interest, administrative, and other (net)	314
Total realized losses	1, 760

* Less than ½ million.

Mr. HORAN. That is all, Mr. Chairman.

Mr. WHITTEN. Thank you, Mr. Grant.

We will have you with us, we are sure, throughout the hearings. So there may be other questions that may arise. We appreciate your presentation.

Mr. GRANT. Thank you, Mr. Chairman. We appreciate your patience in hearing us and we stand ready to help in any way we can.

Mr. WHITTEN. Gentlemen, we might proceed with Mr. O. V. Wells, Administrator of the Agricultural Marketing Service.

GENERAL AGRICULTURAL OUTLOOK

WITNESS

O. V. WELLS, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE

C. KYLE RANDALL, AGRICULTURAL MARKETING SERVICE

Mr. WHITTEN. Mr. Wells, we always welcome your appearance, because you help to keep us informed as to what is happening in American agriculture, as shown by the facts and figures in the records of the Department.

Please proceed in your own way.

GENERAL STATEMENT

Mr. WELLS. Mr. Chairman and members of the subcommittee, my name is O. V. Wells, and I am the Administrator, Agricultural Marketing Service. I am accompanied by C. Kyle Randall, of the Agricultural Marketing Service.

Mr. Chairman, I suggest we start by looking at the table which I would like to open the record with and following that we turn to a series of charts. We also have a short statement or legend relating to each chart which with your permission I will insert in the record, pointing out what the charts show.

Since we will be discussing the charts directly they should also be in the record, if possible.

Mr. WHITTEN. They may be made part of the record at the appropriate places.

RECENT AGRICULTURAL TRENDS

Mr. WELLS. Mr. Chairman, this particular table simply lists some fourteen series which I think are of particular interest and I should also like to insert in the record an additional table further analyzing farm income, indicating our various measures of farm income, because we do have two or three different measures. The second table should show gross farm income, farm expenses, net farm income with and without inventory adjustments and also farm income per farm and per farm person, so that we have a complete record.

Mr. WHITTEN. I will say at the outset, that when for one reason or another, high costs, low prices, and too little acreage, puts the farmer out of business, I think you ought to make note, when you divide income by farmers, that it gives completely an untrue picture. If all the labor in the United States were to be out except one man, and you would divide the labor income by one man, you would know

what he would get. The same would go for industry, if all the business went to one corporation and you divided by one. I do not object to you showing it as you have, but I think a notation should be made that it is ignoring the millions of farmers who no longer are in business for one reason or another.

Mr. WELLS. We have for years before this committee and other places used a figure called "Net-realized income to farmers from farming" which is a return for farmland, for farm management and for the labor of the farmer and his family (exclusive of unrealized inventory allowances) which I consider, myself, to be the best single measure of what is happening to farmers.

However, as statisticians we have income measures which have various concepts and various definitions, and all I was proposing to put before the committee were these various figures so you have them and see the relation one to the other.

Mr. WHITTEN. When you divide farm net income by farmers, do you take into consideration a proper allowance for the investment? There are fewer farmers with large investments per farm in all likelihood. Do you weight your figures by that factor?

Mr. WELLS. We do not in these simple figures, Mr. Chairman, but we have some supplemental tables here which show the amount of money actually invested in farming, in other words, what are the productive farm assets.

Mr. WHITTEN. When you give the net income per farmer certainly you could not ignore the investment.

Mr. WELLS. I would be very happy to put the net productive investment per farm and the trends in farm numbers or population alongside the income estimates in the same table.

Mr. WHITTEN. I am not trying to control your thinking. But I want to be certain we take the ordinary things into consideration in arriving at the figures.

Mr. WELLS. I agree.

MAIN AGRICULTURAL TRENDS

The first column in this first table simply indicates the trends in prices received by farmers, showing 1939 and then 1946, the year when wartime price controls were released, and then tracing it by years into 1957 and by quarters for 1957 itself.

You will note in 1957, largely due to the improvement in livestock prices, that prices received by farmers averaged about 3 percent higher than in 1956.

The second column shows the trend in prices and cost rates paid by farmers. You will note that in 1957 prices paid by farmers generally increased by about 4 percent.

The third column shows the "parity ratio," in other words, the comparison between prices paid and prices received by farmers, averaged 82 percent for 1957, the same as 1956.

The second section of the table simply summarizes our index of farm output.

Here I would call your attention to the fact that in 1957 farm output was at practically the same level as 1956 and 1955.

I have also put in the subindexes of farm output for livestock and livestock products versus the farm output of crops. Since 1947–49 the outturn of livestock and livestock products has increased 21

percent, while the outturn of crops has only increased 6 percent. This I think indicates the very considerable adjustment in the American agriculture picture.

The next column summarizes the trend in food consumption per capita as measured by our index of food consumption per capita for the American population. You will note that 1957 was 102 percent of the 1947–49 average or some 8 points or 8 or 9 percent above 1939.

The next column summarizes the trend in agriculture exports expressed in terms of dollar value at shipside. For the last 2 years we had a very significant increase in the value of agriculture exports.

These, gentlemen, are calendar year totals. We have estimated a figure for 1957 because we do not as yet have the complete fourth quarter report but I think this is a fairly close figure.

Then in the next column we show cash receipts from farm marketings, which you will note were apparently down very slightly from 1957 to 1956.

Actually, the gross return to farmers in 1957, including Government payments, was up slightly from 1956 and we have, Mr. Chairman, a table similar to the one we had last year, which analyzes Government payments by years to farmers for the last several years.

The next column shows the realized net income of farm operators, in other words, gross farm income less operating expenses.

You will note the 1957 figure is less than the 1956 figure.

I would like to call your attention to the fact that this 1957 figure of $11.5 billion is preliminary. It will be July by the time we get all our supplementary information and check material rounded up and publish a revised figure which will represent our best estimate for 1957.

The following column traces the trend in total farm debt, excluding Commodity Credit Corporation loans, Mr. Chairman, again showing 1939 and from 1946 forward by years.

I have also shown the index of farmland values per acre for March 1.

The last two columns show two series I thought would be of considerable interest to this committee, summarizing the two principal components of the average food market basket for the American consumer. Taking an average family with average consumption rates, the farm value of the product going into the year's purchase of food at retail would have cost about $400 in 1957 or slightly more than 1956.

The last column shows the marketing margin, in other words, what was added to the farm value to get to the actual retail figure. You will note in 1957 that the marketing margin ran $607 as compared to $582 in 1956, an increase of about 4 percent.

This marketing margin element of the food basket has been increasing for several years now at an average rate of about 2 percent and this 4 percent increase last year is something that we have been trying to study in some detail.

If you look at the data on a quarterly or monthly basis, however, you will find that this increase slowed down very materially in the last few months of the year and my hope is that competition will at least wipe a portion of this increase out as we move into 1958.

(The tables referred to follow:)

Selected data relating to agriculture, United States, 1939, and 1946–57

Year	Prices received by farmers	Prices paid or parity index	Parity ratio	Farm output			Food consumption per capita	Agricultural exports	Cash receipts from farm marketings [1]	Realized net income of farm operators [1] [2]	Total farm debt Jan. 1	Index farm land values per acre Mar. 1	Food market basket [3]	
				Total	Livestock and products	Crops							Farm value	Marketing margin
	Index numbers 1910–14=100		Percent	Index numbers 1947–49=100			1947–49 = 100	Millions of dollars			Billion dollars	1912–14=100	Dollars	
1939	95	123	77	80	85	82	94	655	7,872	4,394	[4] 10.0	82	[5] 172	[5] 279
1946	236	208	113	98	101	98	104	3,173	24,770	15,000	8.0	141	[5] 396	[5] 562
1947	276	240	115	95	100	93	102	3,957	29,664	17,191	8.5	157	467	444
1948	287	260	110	104	97	106	99	3,472	30,253	15,943	9.3	170	497	485
1949	250	251	100	101	103	101	99	3,578	27,864	13,673	11.4	177	435	493
1950	258	256	101	100	107	97	100	2,873	28,405	12,857	12.5	174	432	488
1951	302	282	107	103	112	99	98	4,040	32,928	14,802	13.1	200	497	527
1952	288	287	100	107	112	103	100	3,431	32,556	14,256	14.6	221	482	552
1953	258	279	92	108	114	103	101	2,847	31,183	13,880	16.1	221	445	558
1954	249	281	89	108	117	101	101	3,054	29,944	12,190	17.2	216	421	565
1955	236	281	84	112	120	105	102	3,199	29,542	11,581	17.8	224	395	574
1956	235	285	82	113	122	106	103	4,167	30,372	12,070	18.9	232	390	582
1957	242	296	82	113	121	106	102	[5] 4,500	[5] 30,019	[5] 11,532	19.5	247	400	607
									Billions of dollars					
1956: 4th quarter	234	289	81					1,332	30.9	12.6		[6] 241	393	590
1957:														
1st quarter	237	294	81					1,283	30.3	11.7		[7] 247	385	597
2d quarter	243	296	82					1,129	30.0	11.4			395	607
3d quarter	247	295	84					962	29.8	11.5		[8] 253	414	616
4th quarter	241	298	81					[9] 1,126	[5] 30.0	[5] 11.5		[6] 259	[5] 407	[5] 607

[1] Quarterly data are seasonally adjusted annual rates.
[2] Note this is net income of farm operators from farming. Net income to all persons on farms, including hired farm labor, from both farm and nonfarm sources, is a different series, estimated at $7,689,000,000 for 1939 and $19,800,000,000 for 1957.
[3] The market basket includes estimated quantities of farm food products purchased per urban wage-earner and clerical-worker family in 1952. Marketing margin equals difference between the retail cost and the farm value. Data for 1939 and 1946 not strictly comparable.
[4] As of Dec. 31.
[5] Preliminary.
[6] Nov. 1.
[7] Mar. 1.
[8] July 1.
[9] December estimated.

Source: Compiled from Agricultural Marketing Service, Agricultural Research Service, and Foreign Agricultural Service data.

Farm income data: United States, 1939, 1946–57

Item	Unit	1939	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957 [1]
		Total farm income												
Cash receipts from farm marketings	Million dollars	7,872	24,770	29,664	30,253	27,864	28,405	32,928	32,556	31,183	29,944	29,542	30,372	30,019
Realized gross farm income [2]	do	10,556	29,324	34,022	34,586	31,582	32,105	37,060	36,732	35,126	33,717	33,212	34,369	34,424
Production expenses	do	6,162	14,324	16,831	18,643	17,909	19,248	22,258	22,476	21,246	21,527	21,631	22,299	22,892
Realized net income of farm operators [3]	do	4,394	15,000	17,191	15,943	13,673	12,857	14,802	14,256	13,880	12,190	11,581	12,070	11,532
Total net income of farm operators [4]	do	4,489	14,923	15,458	17,695	12,866	13,716	16,111	15,120	13,263	12,684	11,852	11,600	12,121
Net income to persons on farms from farming [5]	do	5,189	16,721	17,383	19,704	14,651	15,459	18,003	17,044	15,094	14,438	13,590	13,374	13,944
Income to persons on farms from all sources [6]	do	7,689	21,021	22,283	24,804	19,851	20,759	23,603	23,144	21,094	20,238	19,890	20,074	20,244
		Number of farms and income per farm												
Number of farms	Thousands	6,441	5,926	5,871	5,803	5,722	5,648	5,535	5,421	5,308	5,201	5,087	4,964	4,857
Realized net income per farm	Million dollars	682	2,531	2,928	2,747	2,389	2,276	2,674	2,630	2,615	2,344	2,277	2,432	2,374
Total net income per farm	do	697	2,518	2,633	3,049	2,249	2,428	2,911	2,789	2,499	2,439	2,330	2,337	2,496
Net productive assets per farm [7]	Dollars	6,094	12,435	14,137	15,871	17,109	16,962	20,397	23,188	22,928	22,553	23,786	25,075	27,000
		Farm population and income per person												
Farm population	Thousands	30,840	26,483	27,124	25,903	25,954	25,058	24,160	24,283	22,679	21,890	22,158	22,257	20,306
Income per person on farms:														
From agriculture	Dollars	168	631	641	761	564	617	745	702	665	660	614	601	684
From all sources	do	249	793	822	958	765	828	977	953	930	925	898	902	993

[1] Tentative estimates. Preliminary estimates will be published in early March. Revised estimates based on more complete information will be published in July.

[2] Cash receipts from farm marketings, Government payments, value of home-produced food and fuel, and rental value of farm dwellings.

[3] Realized gross income minus production expenses.

[4] This series is total gross farm income minus production expenses. Total gross farm income is realized gross farm income plus value of change in farm inventory.

[5] Total net income of farm operators, plus farm wages of farm workers living on farms.

[6] Income to persons on farms from farming plus income to persons on farms from nonfarm sources.

[7] Value of farm real estate less value of dwellings, crops held for feed, livestock, machinery, and equipment, less 60 percent of the automobile and demand deposits used for production. Farm debt has been deducted from the value of productive assets.

The farm food market basket: Retail cost, farm value, marketing margin, and farmer's share of retail cost, 1947–57

Year and month	Retail cost [1]	Farm value [2]	Farm-retail spread	Farmer's share (percent)
1935–39 average	[3]	[3]	[3]	40
1947	$911	$467	$444	51
1948	982	497	485	51
1949	928	435	493	47
1947–49 average	940	466	474	50
1950	920	432	488	47
1951	1,024	497	527	49
1952	1,034	482	552	47
1953	1,003	445	558	44
1954	986	421	565	43
1955	969	395	574	41
1956	972	390	582	40
1957 [4]	1,007	400	607	40
1956—January	947	369	578	39
February	942	365	577	39
March	942	373	569	40
April	951	381	570	40
May	964	395	569	41
June	991	405	586	41
July	1,005	407	598	40
August	988	403	585	41
September	988	402	586	41
October	987	398	589	40
November	981	390	591	40
December	979	389	590	40
1957—January	978	389	589	40
February	988	380	608	38
March	981	386	595	39
April	992	395	597	40
May	1,000	391	609	39
June	1,014	400	614	39
July	1,029	410	619	40
August	1,036	419	617	40
September	1,026	411	615	40
October	1,017	401	616	39
November	1,011	407	604	40
December [4]	1,012	412	600	41

[1] Retail cost of average quantities of farm foods purchased per urban wage-earner and clerical-worker family in 1952, calculated from retail prices collected by the Bureau of Labor Statistics.

[2] Payment to farmers for equivalent quantities of farm produce minus imputed value of byproducts obtained in processing.

[3] Comparable dollar figures not available. The farmer's share and index numbers of the retail cost, farm value, and farm-retail spread for the years 1913–56 are published in Farm-Retail Spreads for Food Products, U. S. Department of Agriculture Miscellaneous Publication 741, 1957.

[4] Preliminary estimates.

Mr. WELLS. Now, with your permission, Mr. Chairman, I would like to move to the charts.

Mr. WHITTEN. Just a moment. I want to clarify this now.

As to the prices received by farmers, you are dealing with all farmers—that is, agriculture's total production in your figures?

Mr. WELLS. Yes. These are the averages or totals for the United States as a whole.

Mr. WHITTEN. Now, the index numbers at the top are that 1910–14 equals 100. So your figures there are the present situation as compared to the base figure 1910–14?

Mr. WELLS. Yes, sir.

Mr. WHITTEN. And so it grows across. Of course, you vary some.

Mr. WELLS. In case of farm output our index is calculated with 1947–49 equaling 100.

Mr. WHITTEN. Thank you.

You might go ahead.

Mr. WELLS. Food consumption is the same thing. There is a number of items in terms of dollars where of course there is no index base at all.

FARM PRICES

This first chart shows the index of prices received by farmers and index of prices paid by farmers from 1910 to date by months.

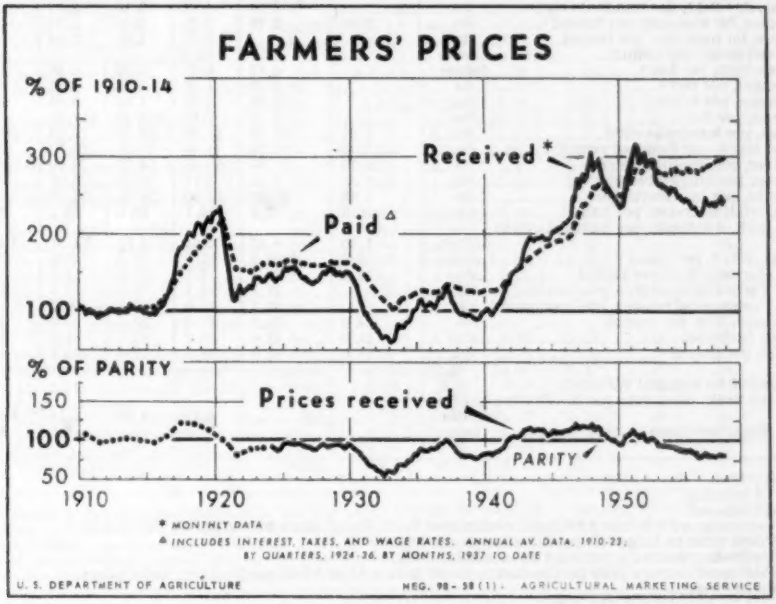
In this connection, I would call your attention to the fact that for the last 18 months received paid by farmers have been relatively stable. I pointed out in discussing the table that in 1957 the received paid by farmers averaged 3 percent above 1956.

That is largely due to the fact that prices reached their low point here in December 1955 and then strengthened during the first 6 months of 1956.

So for 18 months we had a relatively stable price level but for the year this is a 3 percent better average than we had the previous year.

I might add that in January this year the index of prices received by farmers was 247 percent of 1910–14 or a 2-percent improvement over the December 1957 figure.

(The chart and tables referred to are as follows:)



FARMER'S PRICES

Prices received by farmers in 1957 averaged 242, 3 percent higher than in 1956. Compared to December 1955, the low point of recent years, the increase is 9 percent. Prices paid by farmers for goods and services continued to increase in 1957, averaging nearly 4 percent above the previous year. At 299 percent of the 1910–14 average, the December 1957 figure was 3 percent higher than the December 1956 figure which, prior to 1957, was equal to the record high. The relation between prices received and prices paid—the parity ratio—is shown in the bottom section of the chart and is often used as a general measure of changes in the farmer's economic position. The parity ratio in December 1957 was 81, the same as a year earlier. The 1957 annual average of 82 was also the same as 1956.

Average prices received by farmers for farm products, United States, Jan. 15, 1958, with comparisons

Commodity and unit	Average		Jan. 15, 1957	Nov. 15, 1957	Dec. 15, 1957	Jan. 15, 1958
	Aug 1909-July 1914	Jan. 1947-Dec. 1949				
Wheat, per bushel ..... dollars	0.884	2.14	2.09	1.93	1.94	1.90
Rye, per bushel ..... do	0.720	1.82	1.22	1.02	0.985	0.937
Rice (rough), per hundredweight ..... do	1.81	5.38	[1] 4.68	5.04	4.83	5.01
Corn, per bushel ..... do	0.642	1.64	1.23	0.985	[1] 0.984	0.931
Oats, per bushel ..... do	0.399	0.852	0.752	0.614	0.618	0.613
Barley, per bushel ..... do	0.619	1.37	1.05	0.852	0.859	0.855
Sorghum grain, per hundredweight ..... do	1.21	2.53	2.13	1.42	1.56	1.63
Hay, all baled, per ton ..... do		22.40	22.90	18.90	19.20	19.00
Cotton, American upland, per pound ..... cents	[2] 12.4	31.21	30.21	31.13	28.19	27.37
Cotton, American-Egyptian, per pound ..... do			[1] 62.0	60.1	60.3	53.2
Tobacco, types 11-37, per pound ..... do	[3] 10.0	42.0	52.7	49.1	56.5	42.9
Cottonseed, per ton ..... dollars	22.55	71.60	60.40	50.00	50.50	51.30
Soybeans, per bushel ..... do		2.84	2.31	2.04	2.06	2.05
Peanuts, per pound ..... cents	4.8	10.2	11.1	10.7	10.8	9.79
Flaxseed, per bushel ..... dollars	1.69	5.54	3.04	2.94	3.01	2.95
Potatoes, per hundredweight [4] ..... do	1.14	2.46	[1] 1.57	[1] 1.73	1.61	1.76
Sweetpotatoes, per hundredweight ..... do	1.60	4.28	[1] 4.47	[1] 3.36	[1] 5.04	5.16
Beans, dry edible, per hundredweight ..... do	3.37	9.92	[1] 6.83	7.25	[1] 7.35	7.03
Peas, dry field, per hundredweight ..... do		4.60	4.05	3.10	3.12	2.84
Apples, for fresh use, per bushel [5] ..... do	0.96	2.39	3.24	2.18	2.34	2.38
Pears, for fresh use, per bushel ..... do			[1] 2.11	1.99	2.10	1.90
Strawberries, per pound ..... cents		25.7	[1] 32.2			
Grapefruit, per box [6] ..... dollars		0.83	0.85	0.92	0.98	0.94
Oranges, per box [6] ..... do		1.23	1.47	1.66	1.23	1.34
Lemons, per box [6] ..... do		2.50	3.35	1.82	0.85	1.12
Limes, per box ..... do		5.52	7.16	3.40	4.80	5.05
Hogs, per hundredweight ..... do	7.27	21.90	17.30	16.70	17.90	18.50
Beef cattle, per hundredweight ..... do	5.42	20.20	14.90	17.80	18.70	19.70
Calves, per hundredweight ..... do	6.75	22.60	16.60	19.50	20.90	22.20
Sheep, per hundredweight ..... do	4.53	9.15	5.71	6.93	7.25	7.83
Lambs, per hundredweight ..... do	5.88	21.90	18.00	20.00	20.50	21.60
Butterfat, in cream, per pound ..... cents	26.3	71.2	59.1	59.0	59.2	59.0
All milk, wholesale, per hundredweight [7] ..... dollars	1.60	4.42	4.44	4.62	4.51	[8] 4.38
Milk, retail, per quart [9] ..... cents	6.8	18.3	21.3	22.0	22.0	21.7
All chickens, live, per pound ..... do	11.4	29.3	17.1	15.8	15.6	19.0
Farm chickens, live, per pound ..... do		27.7	14.1	12.8	13.6	14.7
Commercial broilers, live, per pound ..... do		32.1	18.0	17.1	16.3	19.9
Turkeys, live, per pound ..... do	14.4	37.0	27.6	23.6	24.8	22.6
Eggs, per dozen ..... do	21.5	46.6	33.2	45.3	44.4	38.9
Wool, per pound [10] ..... do	18.3	46.0	48.9	47.5	46.4	45.2
Adjusted for seasonal variation:						
All milk, wholesale, per hundredweight [7] ..... dollars			4.19	4.24	4.14	[8] 4.13
Eggs, per dozen ..... cents			35.3	41.2	41.1	40.5

[1] Revised.
[2] All cotton.
[3] All tobacco.
[4] Beginning with January 1957, price estimates in all States relate to average for the month.
[5] Prices prior to July 1954 include some processing.
[6] Equivalent on-tree returns for all methods of sale.
[7] Estimated average price for the month for all milk sold at wholesale to plants and dealers.
[8] Preliminary.
[9] Sold by farmers directly to consumers.
[10] Average local market price for wool sold; does not include incentive payment to bring season average return to 62 cents per pound.

NOTE.—Based on reports from 10,693 regular price reporters and supplementary data from special commodity surveys, marketing agencies, and related sources. Data are weighted according to relative importance of States to compute United States averages.

Effective United States parity prices for farm products and average prices received as percentage of effective parity prices based on data for January 1958, with comparisons [1]

Commodity and unit	Adjusted base prices [2]	Effective parity prices [3] based on data for—			Average prices as percentages of parity prices		
		January 1957	December 1957	January 1958	January 1957	December 1957	January 1958
Basic commodities:							
Cotton, per pound:							
American upland...cents	12.61	36.56	37.43	37.96	83	75	72
Extra long staple...do	[4] 27.2	78.5	80.4	81.9			
Wheat, per bushel...dollars	[5] 0.884	[6] 2.49	[6] 2.50	[6] 2.38	84	78	80
Rice, per hundredweight...do	1.95	5.69	5.83	5.87	[7] 82	83	85
Corn, per bushel...do	[5] 0.642	[6] 1.80	[6] 1.81	[6] 1.74	68	[7] 54	54
Peanuts, per pound...cents	[5] 4.8	[6] 13.5	[6] 13.6	[6] 13.0	82	79	75
Tobacco, per pound:							
Flue-cured, types 11–14...do	[4] 19.8	55.8	57.1	59.6		63	
Burley, type 31...do	[4] 20.1	56.6	58.0	60.5	112	100	76
Dark air-cured, types 35–36...do	[4] 11.7	32.7	33.5	35.2	105	108	105
Sun-cured, type 37...do	[4] 12.3		35.9	37.0		97	93
Designated nonbasic commodities:							
Butterfat, in cream, per pound...do	24.8	73.0	75.0	74.6	81	79	79
All milk, wholesale, per hundredweight...dollars	1.65	4.76	4.87	4.97	[8] 88	[8] 85	[8] 83
Wool and mohair:							
Wool, per pound...cents	[4] 23.1	64.5	66.1	69.5	[8] [9] 76	[8] 70	[8] 65
Mohair, per pound...do	[4] 30.4	84.1	86.1	91.5			
Other nonbasic commodities:							
Barley, per bushel...dol	0.443	1.34	1.38	1.33	78	62	64
Beans, dry edible, per hundredweight...do	3.02	9.29	9.51	9.09	74	[7] 77	77
Cottonseed, per ton...do	[4] 22.80	71.00	72.70	68.60	85	69	75
Flaxseed, per bushel...do	1.42	4.50	4.60	4.27	68	65	60
Oats, per bushel...do	0.289	0.864	0.885	0.870	87	70	70
Potatoes, per hundredweight...do	[4] 0.802	2.42	2.47	2.41	[7] 65	65	73
Rye, per bushel...do	0.523	1.65	1.69	1.57	74	58	60
Sorghum, grain, per hundredweight...do	0.870	2.62	2.69	2.62	81	58	62
Soybeans, per bushel...do	0.992	2.98	3.05	2.99	78	68	69
Sweetpotatoes, per hundredweight...do	1.80	5.17	5.26	5.42	[7] 86	96	95
Grapefruit, per box [10]...do	[11] 1.25	[6] 1.39	[6] 1.40	[6] 1.29	61	70	73
Lemons, per box [10]...do	[4] 0.901	2.73	2.73	2.71	123	31	41
Limes, per box...do	[4] 2.05	6.02	6.16	6.17	119	78	82
Oranges, per box [10]...do	[11] 2.29	[6] 2.56	[6] 2.57	[6] 2.35	57	48	57
Apples, primarily for fresh use, per bushel...do	1.01	2.85	2.92	3.04	114	80	78
Beef cattle, per hundredweight...do	7.60	22.10	22.70	22.90	67	82	86
Calves, per hundredweight...do	8.36	24.40	24.80	25.20	68	84	88
All chickens, live, per pound...cents	9.35	28.2	28.9	28.1	61	54	68
Eggs, per dozen...do	15.9	47.3	48.4	47.9	[8] 75	[8] 85	[8] 85
Hogs, per hundredweight...dol	7.21	21.60	22.10	21.70	80	81	85
Lambs, per hundredweight...do	8.51	24.60	25.20	25.60	73	81	84
Sheep, per hundredweight...do	3.39	9.99	10.20	10.20	57	71	77
Turkeys, live, per pound...cents	12.3	36.8	37.7	37.0	75	66	61

[1] Parity prices are computed under the provisions of title III, subtitle A, sec. 301 (a) of the Agricultural Adjustment Act of 1938 as amended by the Agricultural Acts of 1948, 1949, 1954, and 1956.

[2] Adjusted base price 1910–14 derived from 120 month, January 1948–December 1957 average (including an allowance where appropriate for unredeemed loans and other supplemental payments resulting from price-support operations) by dividing by 262 percent (the 120-month average of the Index of Prices Received by Farmers adjusted to include an allowance for unredeemed loans and other supplementary payments) unless otherwise noted. Base prices shown apply for 1958 only.

[3] Effective parity prices as computed currently using base prices in effect and indexes for months indicated. These parity prices are the legally applicable parity prices for the following month.

[4] Adjusted base price 1910–14 derived from 10 season average prices 1948–57 (including an allowance, where appropriate, for unredeemed loans and other supplemental payments resulting from price-support operations).

[5] 60-month average August 1909–July 1914.

[6] Transitional parity, basic commodities 90 percent and nonbasic commodities 55 percent (95 and 60 percent, respectively during 1957) of parity price computed under formula in use prior to Jan. 1, 1950.

[7] Revised.

[8] Seasonally adjusted price as percentage of parity price.

[9] Computed from local market price for wool sold, not including incentive payments to bring season average return to 62 cents per lb.

[10] Equivalent on-tree returns for all methods of sale.

[11] 10-season average 1919–28.

Index numbers of prices received by farmers, United States, Jan. 15, 1958, with comparisons (1910–14=100)

Index	Average		1956		1957			1958
	January 1935 to December 1939	January 1947 to December 1949	Nov. 15	Dec. 15	Jan. 15	Nov. 15	Dec. 15	Jan. 15
UNADJUSTED								
All farm products	108	271	234	235	238	242	242	247
All crops	98	247	237	237	238	224	218	225
Food grains	94	246	232	234	236	221	221	217
Feed grains and hay	96	230	182	185	187	152	152	146
Feed grains	100	241	182	185	186	152	150	144
Cotton	87	264	270	262	256	263	239	232
Tobacco	172	384	443	461	457	473	466	474
Oil-bearing crops	113	318	262	264	266	235	237	233
Fruit	91	183	207	205	227	187	180	183
Commercial vegetables [1]	107	249	266	263	237	241	240	334
Potatoes, etc.[2]	96	232	154	155	162	164	171	178
Livestock and products	116	292	230	233	238	258	264	267
Meat animals	117	334	231	239	254	278	294	308
Dairy products	119	275	279	274	270	279	275	269
Poultry and eggs	110	229	163	165	155	188	185	174
Wool	134	259	253	260	265	267	261	254
SEASONALLY ADJUSTED								
Fruit [3]			227	223	231	205	196	201
Commercial vegetables [1]			277	254	214	254	234	284
Potatoes, etc.[2]			167	162	166	177	179	182
Dairy products [4]			266	260	261	265	262	260
Poultry and eggs			152	155	161	176	176	179

[1] For fresh market.
[2] Includes sweetpotatoes and dry edible beans.
[3] Peaches and pears not adjusted.
[4] Butterfat not adjusted.

Commercial vegetables for fresh market—Average prices per hundredweight received by growers, United States, Jan. 1–15, 1958, with comparisons

Commodity	Average, January 1947 to December 1949	1957				Jan. 1–15, 1958
		Jan. 1–15	Jan. 1–31 [1]	Dec. 1–15	Dec. 1–31	
Snap beans	$8.34	$10.30	$11.00	$8.50	$9.80	$15.30
Broccoli	10.10	8.70	7.90	9.40	9.80	9.30
Cabbage	1.77	1.45	1.60	[1] 2.00	2.20	2.70
Cantaloups	4.46					
Carrots	3.41	2.85	2.40	4.85	4.80	4.40
Cauliflower	3.77	3.35	3.50	[1] 3.85	4.20	5.20
Celery	4.35	5.70	5.40	2.80	3.30	3.65
Corn, sweet		5.00	5.20	4.25	4.50	7.50
Cucumbers	6.92	6.90	6.40	9.20	11.40	18.20
Lettuce	4.41	5.20	4.90	3.75	3.80	3.65
Onions	3.46	2.00	2.20	2.15	2.15	2.30
Green peppers	10.10	9.60	9.60	11.50	13.90	32.50
Spinach	4.83	7.70	7.40	8.20	8.50	8.70
Tomatoes	8.15	9.40	6.90	8.60	8.90	12.90
Watermelons	1.58					

[1] Revised.

Index numbers of prices paid by farmers, interest, taxes, and wage rates, and related data, United States, Jan. 15, 1958, with comparisons

Indexes and ratios	Averages		1956		1957			1958
	1935–39	1947–49	Nov. 15	Dec. 15	Jan. 15	Nov. 15	Dec. 15	Jan. 15
	1910–14=100							
Prices paid by farmers:								
Commodities and services, interest, taxes, and wage rates	125	250	289	290	292	298	299	301
Prices paid	124	240	267	268	269	275	276	277
Family living items	124	244	281	283	283	289	[1] 289	289
Food and tobacco	117	239	------	271	------	------	278	------
Clothing	117	285	------	321	------	------	326	------
Household operation	118	178	------	202	------	------	209	------
Household furnishings	137	256	------	276	------	------	279	------
Building materials, house	154	339	------	407	------	------	409	------
Autos and auto supplies	147	233	319	317	318	328	327	325
Production items	124	237	252	252	255	260	[1] 263	264
Feed	105	231	208	210	211	194	194	193
Feeder livestock	124	348	270	253	274	325	343	356
Motor supplies	104	140	------	169	------	------	172	------
Motor vehicles [2]	161	290	395	400	400	416	423	421
Farm machinery	153	239	------	337	------	------	358	------
Farm supplies	140	235	------	286	------	------	292	------
Building and fencing materials	145	296	------	383	------	------	391	------
Fertilizer	102	143	------	[3] 151	------	------	[3] 152	------
Seed	118	242	------	[3] 218	------	------	[3] 209	------
Interest [4]	119	79	[1] 150	[1] 150	[1] 163	[1] 163	[1] 163	175
Taxes [5]	182	270	421	421	[1] 440	440	440	464
Wage rates [3]	121	430	550	550	554	565	565	567
Parity ratio [7]	86	108	81	81	82	81	81	82
Production items, interest, taxes, and wage rates	126	255	295	294	299	304	306	309
Unrevised index (as calculated prior to Jan. 1, 1950):								
Prices paid, interest, and taxes	127	242	292	293	[1] 295	299	299	300
Prices paid	124	253	294	295	295	299	299	298
	1947–49=100							
Prices received by farmers	40	100	86	87	88	89	89	91
Wholesale prices: [8]								
All commodities	[9] 52	100	116	116	117	118	118	119
Other than farm and food products	[9] 58	100	124	125	125	126	126	126
Prices paid by farmers, interest, taxes, and wage rates	50	100	116	116	117	119	120	120
Consumers' prices (CPI) [10]	60	100	118	118	118	122	122	------
Average hourly earnings, manufacturing production workers [11]	45	100	153	154	154	[1] 159	159	------

[1] Revised.
[2] Includes autos, trucks, and tractors.
[3] Estimated unchanged since Sept. 15, date of last previous survey.
[4] Interest payable per acre on farm real-estate debt.
[5] Farm real-estate taxes payable per acre (levied in preceding year.)
[6] Seasonally adjusted.
[7] Ratio of index of prices received to index of prices paid, interest, taxes, and wage rates. Not necessarily identical to a weighted average percent of parity for all farm products largely because, pursuant to law, parity prices for some commodities are on a transitional basis.
[8] Bureau of Labor Statistics index for week including 15th of the month.
[9] Based on monthly averages.
[10] Bureau of Labor Statistics.
[11] Based on earnings per hour as estimated by the Bureau of Labor Statistics.

Mr. WHITTEN. I read the letter earlier, and from the conditions in my section, the farmers are not able to buy anything. Their equipment is 5 to 10 years old.

I wonder whether that figure of what the farmer pays does not mean the list price of the offers for sale, rather than what the farmers are really buying. My question is based on conditions in the Southeastern States and statements of the farm machinery people. It is deplorable nationwide. I am asking when you say "paid" do you mean the price for which they might have bought?

Mr. WELLS. Yes; these are prices or rates paid. Neither of these indexes measures volume. Here we are measuring the pure price components.

Mr. WHITTEN. All right; the price the farmer would pay if he bought.

Mr. WELLS. Yes; and the only way we can compare changes in prices in calculating a price index is take an average bill of goods and compare the cost of the same bill from one year to the next. This is the only way to get the change in price element versus a change in volume. So we are dealing with prices only.

Mr. WHITTEN. But the farmer is not buying. That is generally true. To arrive at the figure you mention there I ask again: Do you go to the sellers of the equipment to arrive at that or do you check with farmers to see what they would have to pay, or do you search the United States trying to find the few farmers who have been able to buy new equipment? I am serious in that.

Mr. WELLS. Most of our prices-received and prices-paid information come from questionnaires, Mr. Chairman, which go to local dealers or local merchants. We also get some questionnaires from farmers as such. In the case of a few of the larger items we try to do some actual interviews and spot checking but we are not able to do much of that.

Mr. WHITTEN. For instance, the letter that I have read in the record that comes from an outstanding and successful farmer, a large operator for his area, says that in the southern part of his county there is not a single new automobile except one driven by the daughter of one of the dealers.

Mr. WELLS. Yes, sir.

Mr. WHITTEN. His wife says that, and that is verified by him. He says that his tractors are 6 to 8 years old, his refrigerator 10, his stove 12; and that is a typical situation.

When you say these are prices the farmers pay, you agree that they are not buying what they are unable to.

Mr. WELLS. That is right.

Mr. WHITTEN. This, then would be the price at which they would buy if they could.

Mr. WELLS. That is correct.

In our estimates of farm expenses we get into this question of volume. But here we measure prices only.

FARM INCOME

Moving from the farmer's prices we come to income of farm operators. This second chart summarizes the income of farm operators. Here we are dealing with all the farm operators in the United States as a total, and we are dealing with their farm operations.

The first line on this chart shows the realized gross income of farm operators including Government payments, sales, and nonmoney income, that is to say, things produced for the farmer's use on his own farm.

We then subtract out this large dotted upper portion—production expenses. You will note that in 1957 we estimate that gross farm income shows a small increase. Actually I point out that cash sales showed a $350 million decline, I believe, but Government payments increased by around $450 million.

In estimating production expenses, Mr. Whitten, we do try to estimate the volume of various products purchased, taking into account also the price factor. We estimate the increase in production expenses was enough to offset this slight increase in realized gross farm income and push down the realized net by about $500 million.

Mr. WHITTEN. I am trying to find out how sound your figures are, and I certainly agree from all accounts with the comparisons which you draw. But using the illustration of the letter which is in the record, where they have not been able to buy a tractor in 6 years, do you figure production expenses there? You are figuring the operations of that tractor, and I am sure you could not do it in great detail. But is that based on the average life of a tractor and the average price of tractors? Is that the way you arrive at it?

Mr. WELLS. Yes.

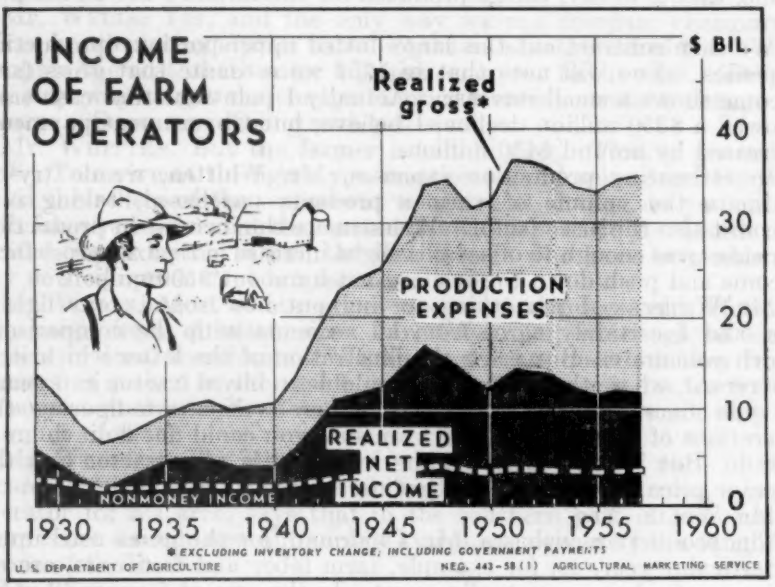
The production expenses, Mr. Chairman, for the items used up in a particular year, as, for example, farm labor and fertilizers, are an estimate of what was actually spent. In the case of farm machinery and automobiles, however, it is a depreciation allowance based upon prices paid in previous years and the expected life of the machinery.

Mr. WHITTEN. I am glad to have your statement, because it added strength to your position. It is my opinion that many, many farmers that I know in my general area are much worse fixed and much more crippled in their operations than many of them realize themselves, in that they are counting their cash outlay annually and their cash income annually and forgetting to realize that their equipment is wearing out. Actually their net position is not enough to enable them

to amortize the cost of new equipment. Many of them, the small ones, at least, do not fully recognize that the situation is becoming worse, as rapidly as it is.

Mr. WELLS. Certainly there are areas where this is happening. At the same time the farmer has reached the place where he has little choice but to use modern machinery in his farming. But the machine and automobile element is a depreciation element in these production expenses, because when farmers have a good year they can buy; when they have a bad year they tend to hold off and this is the best way we know over a period of time to handle the machinery and automobile element.

(The chart and tables referred to follow:)



INCOME OF FARM OPERATORS

Realized gross farm income increased in 1957, largely as a result of increased Government payments under the soil-bank program. Realized net of farm operators was some lower than 1956. Reductions in both quality and quantity, as well as delayed harvesting of the 1957 cotton, resulted in a lower realized net than had previously been estimated. Production expenses were slightly higher than in 1956.

Government payments to farmers, 1939 and 1946–57

[In millions]

Year	Conservation program	Sugar Act	Wool program	Soil bank program	Other	Total
1939	$526	$28			[1] $209	$763
1946	285	31			[2] 456	772
1947	277	37				314
1948	218	39				257
1949	155	30				185
1950	246	37				283
1951	246	40				286
1952	242	33				275
1953	181	32				213
1954	217	40				257
1955	188	41				229
1956	220	37	$54	$243		554
1957 [3]	228	39	49	700		1,016

[1] Price Adjustment Act of 1938, $201 million; cotton price adjustment, $8 million.
[2] Production payments: Dairy, $401 million; beef, $22 million; sheep and lambs, $33 million.
[3] Preliminary.

Farm income and productive farm assets per farm 1940 and 1946–57

Year	Number of farms	Realized gross farm income per farm	Production expenses per farm	Realized net income per farm [1]	Value of productive farm assets per farm Jan. 1	Realized net income per farm as percent of net value of productive farm assets [2]
	Thousands					*Percent*
1940	6,350	$1,738	$1,063	$675	$6,094	14.9
1946	5,926	4,948	2,417	2531	12,435	22.8
1947	5,871	5,795	2,867	2,928	14,137	23.1
1948	5,803	5,960	3,213	2,747	15,871	19.3
1949	5,722	5,519	3,130	2,389	17,109	15.8
1950	5,648	5,684	3,408	2,276	16,962	15.4
1951	5,535	6,695	4,021	2,674	20,397	14.8
1952	5,421	6,776	4,146	2,630	23,188	12.8
1953	5,308	6,618	4,003	2,615	22,928	13.1
1954	5,201	6,483	4,139	2,344	22,553	12.2
1955	5,087	6,529	4,252	2,277	23,786	11.2
1956	4,964	6,924	4,492	2,432	25,075	11.4
1957 [3]	4,857	7,087	4,713	2,374	27,000	10.4

[1] Realized net income per farm represents income within year and is the net realized return to farmer's labor, management and capital combined. For an analysis of hourly returns to farm operator and family labor, after allowing for 4.75 percent return on capital investment, see following table, Estimated return per hour to all farm labor, 1940 and 1946–57.
[2] Productive farm assets less farm debt.
[3] Preliminary.

Estimated return per hour to all farm labor

Year	Total realized return to all farm labor and capital [1]	Allowance for capital at 4¾ percent [2]	Total return to labor and management [3]	Total man-hours required for agricultural production [4]	Realized return per hour to all farm labor and management [5]
	(1)	(2)	(3)	(4)	(5)
	Millions	*Millions*	*Millions*	*Million hours*	
1929	$8,982	$2,997	$5,985	23,158	$0.258
1930	6,908	2,955	3,953	22,921	.172
1931	4,775	2,603	2,172	23,427	.093
1932	3,419	2,179	1,240	22,605	.055
1933	4,209	1,819	2,390	22,554	.106
1934	5,407	1,926	3,481	20,232	.172
1935	6,261	1,991	4,270	21,052	.203
1936	6,889	2,138	4,751	20,440	.232
1937	7,080	2,203	4,877	22,097	.221
1938	6,047	2,206	3,841	20,577	.187
1939	6,247	2,140	4,107	20,680	.199
1940	6,245	2,157	4,088	20,445	.200
1941	8,553	2,241	6,312	20,054	.315
1942	11,831	2,506	9,265	20,857	.444
1943	15,386	3,013	12,373	20,693	.598
1944	15,871	3,404	12,467	20,496	.608
1945	16,604	3,724	12,880	19,127	.673
1946	19,303	4,051	15,252	18,448	.827
1947	21,849	4,559	17,290	17,622	.981
1948	20,765	5,044	15,721	17,149	.917
1949	18,175	5,299	12,876	16,604	.775
1950	17,367	5,198	12,169	15,259	.797
1951	19,713	6,053	13,660	15,632	.874
1952	19,293	6,723	12,570	15,196	.827
1953	18,675	6,542	12,133	15,007	.808
1954	16,874	6,319	10,555	14,555	.725
1955	16,249	6,507	9,742	14,505	.672
1956	16,954	6,628	10,326	14,177	.728
1957	16,489	7,014	9,475	13,743	.689

[1] Includes realized net income of farm operators, wages to hired farm labor, farm mortgage interest, rent to nonfarm landlords and short-term interest.

[2] 4¾ percent of current value of farm real estate, inventory value of crops and livestock, inventory value of motor vehicles and machinery, excluding 60 percent of the automobile, and an allowance for working capital. This rate approximates the interest rate on farm-mortgage debt in recent years.

[3] Col. (1) minus col. (2).

[4] Labor requirements in terms of the number of man-hours required for an average adult male worker to perform the various farm jobs.

[5] Col. (3) divided by col. (4).

Source: Agricultural Marketing Service, Jan. 16, 1958.

Mr. WHITTEN. May I say to the members of the committee that we are referring to many subjects. I hope each member of the committee will feel free to raise questions at any time on anything that appears that might be of interest.

CONSUMER DEMAND

Mr. WELLS. Our next chart tries to show the picture for consumer incomes in the United States.

The largest single stream of demand for American farm products of course comes from the American consumer who buys over 90 percent of what the farmer raises. This chart traces the story with respect to personal income on a per capita basis from 1929 to date.

In other words, this chart analyzes average per capita personal incomes. We have in the upper section broken out the income taxes which are taken out of most people's checks so they do not see them. After this adjustment we have what as economists we call "disposable" personal income, what people have to spend. We have taken out of that savings and indicate the expenditures for nonfood goods and services and expenditures for food.

The interesting thing about this chart is that the relative expenditures for food—and I am talking about food at retail, not the farm product—the relative expenditures for food have held up very well, running about 25 percent of average per capita disposable income over the last several years as indicated by the heavy black line in the lower section of the chart.

We have had a substantial improvement in the quality of the diet and in the services associated with food at retail which is measured by the difference between the two lines in the lower section of the chart.

The dotted line shows the proportion of consumer expenditures that would be going for food today if we ate the same kinds of food and purchased them with the same services and in the same ways as we did back in 1935–39, whereas the solid line is about as close to the real picture as we can get. That is, because of better diets, increased services, and more eating out consumers are spending more for food today than would be the case were food habits and merchandising practices unchanged from 1935–39.

Mr. WHITTEN. Let me interrupt you again. You are pointing out on the chart to us with a pencil and it is quite clear to us. I hope you clarify the record so the reader will have the same opportunity for clarity and understanding that we have.

Mr. WELLS. We will try to do this if you will give me permission and a little time to edit the record.

Mr. WHITTEN. You have permission.

Mr. WELLS. Here is where you run into really one of your major questions as you look ahead gentlemen.

You will note the almost steady uptrend in average per capita income over the last 20 years. There was a hesitation back in 1949, 1 year when disposable income and personal income went down very slightly. Again in 1954 disposable personal income leveled off.

Disposable personal income increased in 1957 as compared with 1956, but in the third quarter of the year it turned down very slightly. In sort, if we had this last year broken down by quarters you would find that it went up for the first three quarters, with a slight downturn in disposable personal income in the fourth quarter. At the same time we have some increase in unemployment, industrial production is down and this raises the question: How long is this slowdown in business or this dip in the general income flow likely to continue? What corrective forces are going to bring us out of it?

Our general feeling is that we are likely to have continuation of the slowdown into the spring or early summer and then an improvement in the last half of the year.

What happens here is of very material importance to farm people. So far we have not been able to see any appreciable effect of the slowdown over the last several months on farm prices. As a matter of fact, livestock prices in January, with a somewhat better supply situation than we had a year ago, have actually been better than a year earlier.

Mr. WHITTEN. Down in my area, livestock prices are good where they have them to sell, but I wonder how consistent it is. In my own area, the extra demand for cattle, as a result of trying to stock the lands of the West, where they got rid of all their cattle, has just created that sufficient increase in demand where it raised prices generally. I

would like to believe it is something you could rely on, but I am afraid it is not in the long run.

Mr. WELLS. Mr. Chairman, there is no question but what in the producing country—and Mississippi is now a major cattle State—the demand for cattle to restock drought areas or to put on land which cannot be put in other crops has materially strengthened prices over the last 6 or 8 months. The drought in Texas and the intermountain areas was broken last spring and summer and there was some upturn in cattle prices, partly also because of the fact we have passed the peak in the cattle cycle.

Cattle numbers on January 1, 1957, were down 1.6 million head. We believe we slaughtered more cattle in 1957 than there were produced in the way of calves. We expect our livestock number report that comes out in February to indicate another decrease in the number of cattle for January 1, 1958, as compared with January 1, 1957.

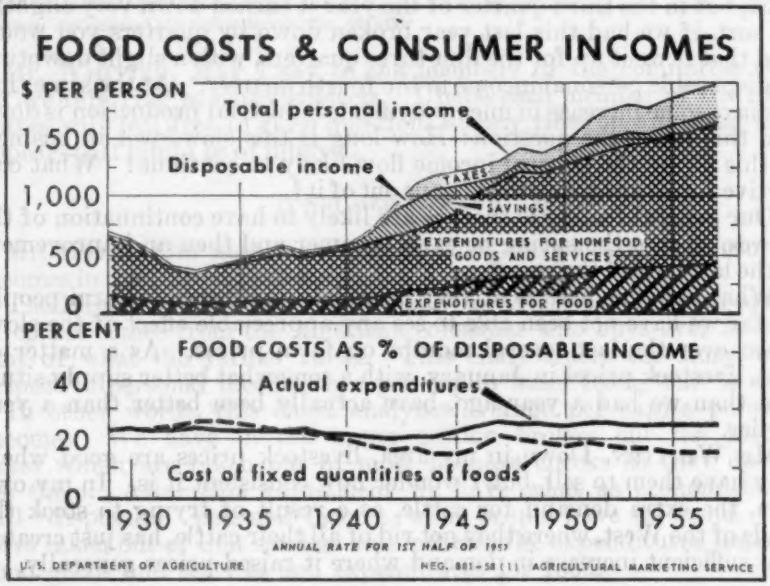
Nevertheless, a business depression could affect livestock prices. Also we have very heavy supplies of feed in the Corn Belt. One of the questions is at what rate are we going to feed the cattle and at what rate are hogs going to increase over the next year. Surplus feed is one of our big problems. So far, however, farmers have only indicated a moderate increase in hog production.

We are talking about food expenditures, and I am trying to say that what the ordinary consumer buys at retail is not a raw farm product but is a farm product to which a great many services have been added. I want to talk now about those added services; about marketing costs.

Mr. WHITTEN. I believe your table shows that on such items generally the farmer gets less than 40 percent of the retail price.

Mr. WELLS. Our estimate for the year was 40 percent of the consumer dollar to the farmer, I believe, Mr. Chairman. It comes out right at 40 percent as near as we can estimate.

(The chart referred to is as follows:)



FOOD COSTS AND CONSUMER INCOMES

The income per person of American consumers, who comprise by far the largest market for farm products, continued to increase into 1957 and with it food expenditures also rose. Consumers continued to spend about 25 percent of their disposable income for food, as they have in recent years. This is a somewhat higher percentage than in the World War II and prewar period. If consumers were purchasing the same quantities and qualities of food per person as they did in the late 1930's, food expenditures would account for a smaller percentage, around one-sixth. However, food consumption per person is about 12 percent higher and consumers are purchasing more market services with their food.

FOOD PRICES VERSUS FACTORY LABOR EARNINGS

Mr. WELLS. This particular chart simply analyzes the prices of eight stable foods in terms of what the ordinary factory laborer receives for 1 hour of labor, exclusive of any fringe or retirement benefits, which, of course, have been increasing the last several years.

Mr. ANDERSEN. Mr. Wells, will that chart be in readable form in the hearings, so that people studying the hearings can see the facts as portrayed by it?

Mr. WHITTEN. I had earlier suggested, Mr. Andersen, that these charts should be in the record at the outset of the discussion.

Mr. HORAN. I wonder if we can have reflected with this chart the rise in factory labor per hour. You undoubtedly have a figure.

Mr. WELLS. I do not happen to have a table with me but we would be happy to put a table in showing that.

Mr. HORAN. I am inclined to agree that the hourly wage figure has risen tremendously because the prices of food have remained about the same

Mr. WELLS. I think factory wages have risen from 60 cents an hour prewar to $2 an hour now.

Mr. ANDERSEN. Mr. Wells, this is probably the most important chart you show each year. It is the most quoted chart that you show. It shows that the laboring man with an hour's wage can buy far more today in proportion to what he could purchase back in 1939 and 1929 especially.

Again, I say, this is a very important chart from the viewpoint of showing that agriculture as a whole is not getting the square deal it should get from the American people.

I might say, as I said all these years, after looking at such a chart, the consumer has no cause for complaint. I would like to point out to Mr. Santangelo, especially, the amount of these staple food commodities which can be purchased today out of an hour's wage compared to 1939 and 1929.

Mr. WELLS. This further tends to understate the current purchasing power in the sense that the wage figures used are direct cash wages and do not include fringe benefits .

Mr. ANDERSEN. You will bring out later that the added cost to the consumer is really the demand on the part of the consumer for the costly packaging and retailing services. He demands more today than in previous years.

Mr. WELLS. Correct.

Mr. ANDERSEN. In spite of that demand and that added cost, he still gets more, much more than he did for an hour's wage back in 1929 or 1939. Is that not a factor?

Mr. WELLS. Yes. A portion of the picture, Mr. Andersen, is the increased services. A portion of the picture is increased cost rates, including wage rates, that go into the pricing system.

Mr. SANTANGELO. Would you put in the record a comparison of the wages earned by the factory workers from 1929 through 1957 to supplement this chart?

Mr. WELLS. Yes; we will do that.

Mr. SANTANGELO. So that we can compare the factory wages with the amount of food that he can purchase.

Mr. WELLS. Yes, sir; and the wages will be the direct wages. I mean we will not have the fringe benefits.

Mr. SANTANGELO. All I am talking about are the direct wages. The average wages of the laborer.

Mr. WELLS. All right, sir.

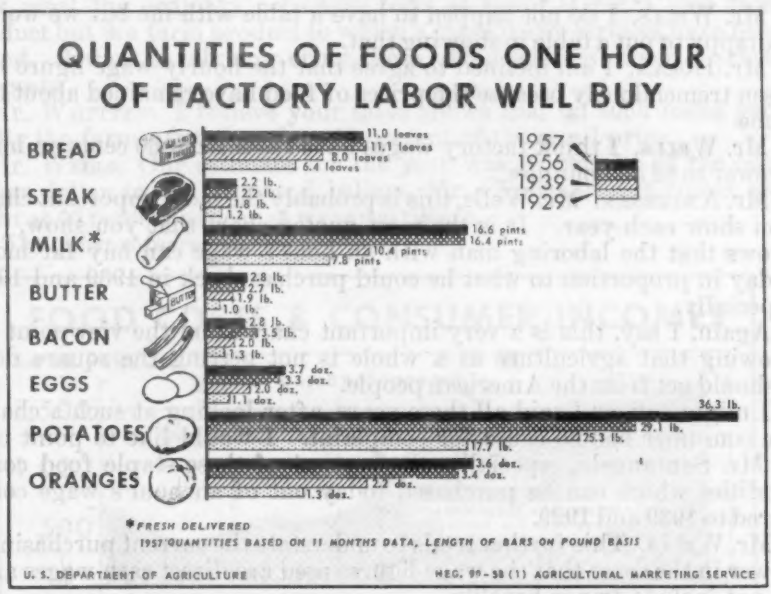
Mr. ANDERSEN. I think to have the complete figure, as Messrs. Horan and Santangelo said, we should have these charts together.

Mr. WELLS. Alongside.

Mr. SANTANGELO. Have it next to it so you can compare one with the other.

Mr. WELLS. Yes. When we put the chart in, we will put the table as close to the chart as we can.

(The chart and table referred to are as follows:)



QUANTITIES OF FOODS 1 HOUR OF FACTORY LABOR WILL BUY

When food prices are measured relative to hourly wage rates, most staple food items represent very good buys. The quantities of food which 1 hour of factory labor would buy in 1929, 1939, 1956, and 1957, as measured by estimated hourly wages of factory labor and average retail food prices, are indicated in the above chart. One hour's factory labor would buy more of each of these foods in 1930 than in 1929, more in 1956 than in 1939, and more in 1957 than in 1956, except for round steak, which was the same, and bread, and bacon, which were lower.

Hourly earnings of factory workers and urban retail food prices, United States, 1929–57

Year	Gross hourly earnings of factory workers [1]	Hourly earnings of factory workers (1947–49=100)	Retail food prices (1947–49=100)
1929	$0.506	42.6	65.6
1930	.552	41.5	62.4
1931	.515	38.8	51.4
1932	.446	33.6	42.8
1933	.442	33.3	41.6
1934	.532	40.0	46.4
1935	.550	41.4	49.7
1936	.556	41.8	50.1
1937	.624	47.0	52.1
1938	.627	47.2	48.4
1939	.633	47.6	47.1
1940	.661	49.7	47.8
1941	.729	54.9	52.2
1942	.853	64.2	61.3
1943	.961	72.3	68.3
1944	1.019	76.7	67.4
1945	1.023	77.0	68.9
1946	1.086	81.7	79.0
1947	1.237	93.1	95.9
1948	1.350	101.6	104.1
1949	1.401	105.4	100.0
1950	1.465	110.2	101.2
1951	1.59	119.6	112.6
1952	1.67	125.7	114.6
1953	1.77	133.2	112.8
1954	1.81	136.2	112.6
1955	1.88	141.5	110.9
1956	1.98	149.0	111.7
1957 [2]	2.08	156.5	115.4

[1] Gross earnings do not include an adjustment for fringe benefits or for tax deductions.
[2] Preliminary.

Agricultural Marketing Service.
Compiled from reports of Bureau of Labor Statistics.

Mr. HORAN. The next chart is dynamite.

THE FARMERS SHARE OF THE RETAIL FOOD DOLLAR

Mr. WELLS. This chart shows again for 1940 and from 1945 to date, the breakdown of the average dollar spent in the retail store for food by the American consumer for products produced on American farms. I say this because it excludes bananas and coffee which we import from outside. In other words, this is the average retail price of American farm products put together in approximate proportion that they are in the Bureau of Labor's index of food prices at retail.

And you will note that our estimate for 1957, to the nearest cent, is 40 cents versus 60 cents which is about where we were in 1940 and is the same as 1956. Prior to that there was a drift downward for 5 years.

Mr. WHITTEN. It shows that in 1956, out of a dollar that the consumer paid at the grocery store, the farmer received 40 cents and the folks in between the consumer and the farmer received 60 cents. You showed the same figure for 1957.

In that 40 cents the farmer received, do you include the millions of dollars that we are paying to him in the soil bank? In giving the farm income, you used Government payments as part of his income. Now, is that Government payment a part of that 40 cents?

Mr. WELLS. No; this is the price for the farm commodity in the open market, Mr. Chairman.

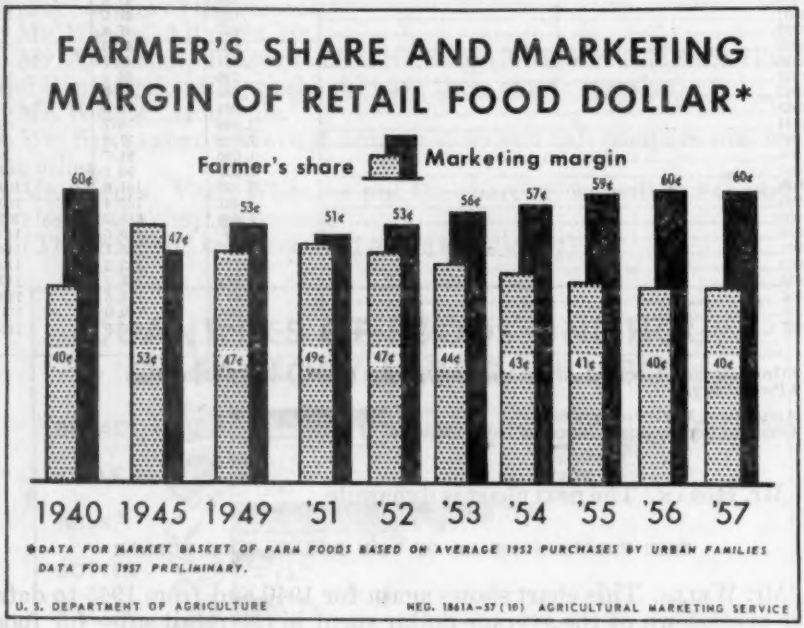
Mr. WHITTEN. I just want to keep the record straight.

Mr. WELLS. Yes. What we are trying to do is get the difference between the retail commodity price and the price on the market. The introduction of Government payments always introduces serious problems. We had to introduce them during the war.

Mr. WHITTEN. I would like to point out that the farmer who took land out of production did not have anything to sell on that part of his lands. So actually that farmer did not get 40 cents but took the Government payment instead.

Mr. WELLS. Yes, sir. He took the Government payment in lieu.

(The chart referred to is as follows:)



FARMER'S SHARE AND MARKETING MARGIN OF RETAIL FOOD DOLLAR

Charges for processing and distributing a "market basket" of foods produced on United States farms in 1957 was the same precentage of the retail value as in 1956. After a gradual decrease from 1951 through 1956, the farmer's share remained the same—40 cents. This was true, even though the retail value, the farm value, and the marketing margin were all higher than that in 1956.

THE FOOD MARKETING BILL

Mr. WELLS. Our next chart analyzes the total food marketing bill 1940, 1945, and 1957. In our food marketing bill, incidentally, we include the estimated margin that is added to food by restaurants and places that serve prepared food. To that extent it differs from the preceding chart where we were dealing with food at the retail store.

In 1940 we estimated total food expenditures at $14.5 billion, of which $9 billion was the food marketing bill.

In 1945 it increased to $27 billion with $14.5 billion food marketing bill.

In 1957 the total food expenditures was $55.5 billion, of which $36 billion was the food marketing bill, and of course $19.5 billion was the farmers' cash receipts from those particular foods.

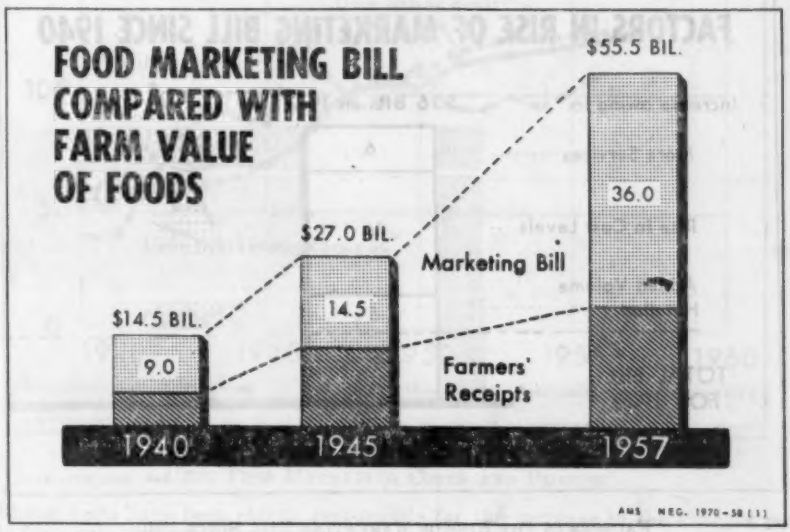
This, Mr. Chairman, does not quite come to the 40–60 ratio we discussed earlier because here we include allowances for restaurant meals which are not part of the retail price in the retail store.

Mr. VURSELL. Before you leave that, since I came in late, I know the chairman will permit me to ask the question so that I may better understand the charts and the problem. As to the little dotted lines of farmers' receipts in 1945 and 1957, is that to reflect the volume of food or is that to reflect inflation in price?

Mr. WELLS. That is my next chart, Mr. Vursell.

The dotted lines simply are to help you compare the bars for 1940, 1945, and 1957 with each other.

(The chart referred to is as follows:)



FOOD MARKETING BILL COMPARED WITH FARM VALUE OF FOODS

The bill for marketing and farm-food products has increased steadily since 1940. In 1957, it was $36 billion, 4 times that of 1940. Further increases are in prospect for 1958. This bill includes charges for processing and distributing to civilian consumers domestically produced farm foods, including food sold in the form of restaurant meals. See the following chart for an analysis of the main factors influencing the increase in the marketing bill since 1940.

FACTORS IN RISE OF MARKETING BILL SINCE 1940

Mr. WELLS. The next chart tries to analyze how we got from the $9 billion marketing bill in 1940 to $36 billion in 1957.

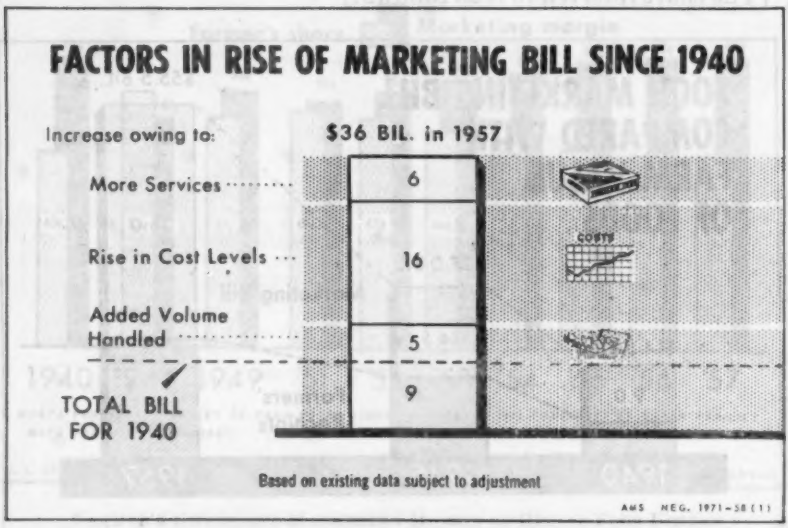
We start with the $9 billion marketing charges in 1940, which was the food-marketing bill. However, our population has grown since then and average per capita food consumption has improved since

then. So if we only corrected for added volume, in other words for the added people plus the added per capita consumption at the same prices, it would add $5 billion, bringing the total to $14 billion.

However, over this same period the average per unit cost of handling food has more than doubled. This is the inflation factor, Congressman Vursell. So the inflation factor, the more than doubling in the average unit cost of handling, increases us from $14 billion. another $16 billion and brings the total to $30 billion. We estimate that the added services which have gone into American food add about $6 billion more, giving an estimated total marketing bill of $36 billion for 1957.

This, I grant you, is a rough analysis, but this is an effort, Congressman Vursell, to do what I think you were asking: How much of this is due to cost rates? How much of this is due to volume? How much to added services?

(The chart referred to is as follows:)



FACTORS IN THE RISE OF MARKETING BILL SINCE 1940

Inflation was the major factor in the $27 billion increase in the marketing bill from 1940 to 1957. The volume of food marketed rose by more than 50 percent. This increased the marketing bill by about $5 billion in terms of 1940 prices. Increases in average unit costs accounted for an additional $16 billion. The remaining $6 billion represents charges for increased services provided by the food-marketing firms. These charges include costs and profits of firms providing these increased or "built in" maid services.

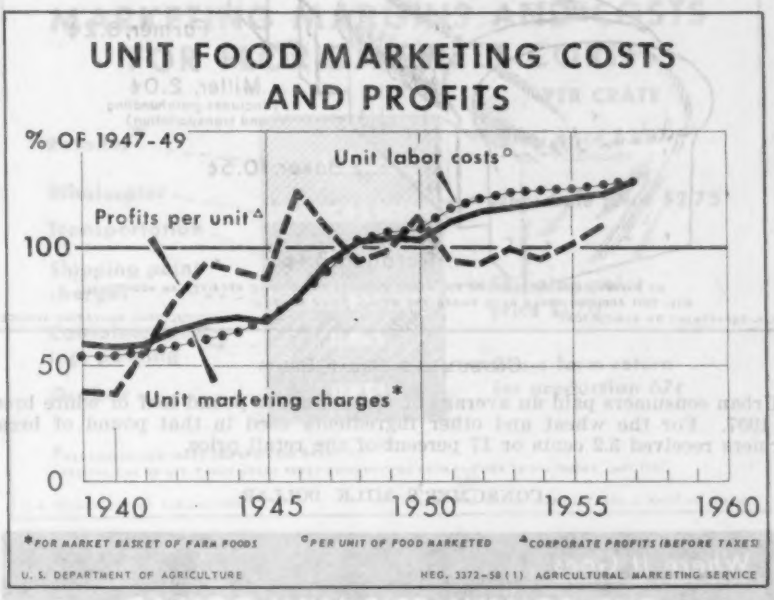
UNIT FOOD MARKETING COSTS AND PROFITS

Mr. WELLS. This next chart tries to analyze some of the components of the unit food marketing costs. It breaks down the more than doubling in the per unit costs of handling food from 1940 to date, showing what happened to the unit labor costs and what happened to profits of the processing-wholesaling-retailing industries which handles food over this same period.

Actually, wages today are about 50 percent above what they were in 1947–49. With increasing efficiency of labor, however, labor per unit costs show roughly, I believe, about a 30-percent increase over 1947–49, but they are more than double what they were back in 1939 and 1940.

The heavy black line in the center of the chart is our estimate of the unit marketing charges for the entire food marketing system.

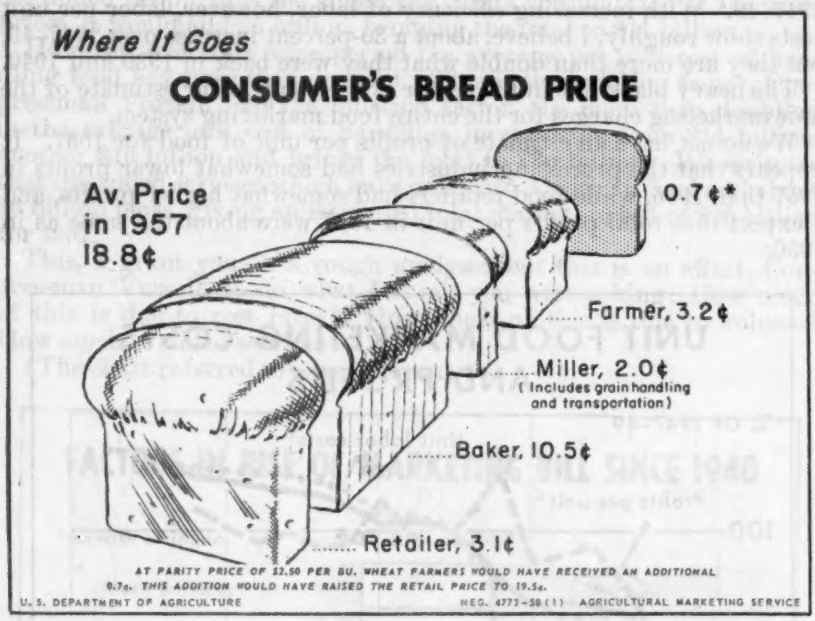
We do not have an estimate of profits per unit of food for 1957. It appears that the processing industries had somewhat lower profits in 1957 than 1956, while food retailers had somewhat higher profits, and I expect that total profits per unit in 1957 were about the same as in 1956.



UNIT FOOD MARKETING COSTS AND PROFITS

Rising costs have been chiefly responsible for the increase in the charges per unit for marketing farm-food products over the past several years. In 1957 average hourly earnings of employees of food processing and distributing firms were about 50 percent higher than the 1947–49 average. Since there has been an increase in output per man-hour, the increase in unit labor costs has been 27 percent, about half that in hourly wage rates. Direct labor costs make up about half the food marketing bill. Unit marketing costs have moved very closely with unit labor costs.

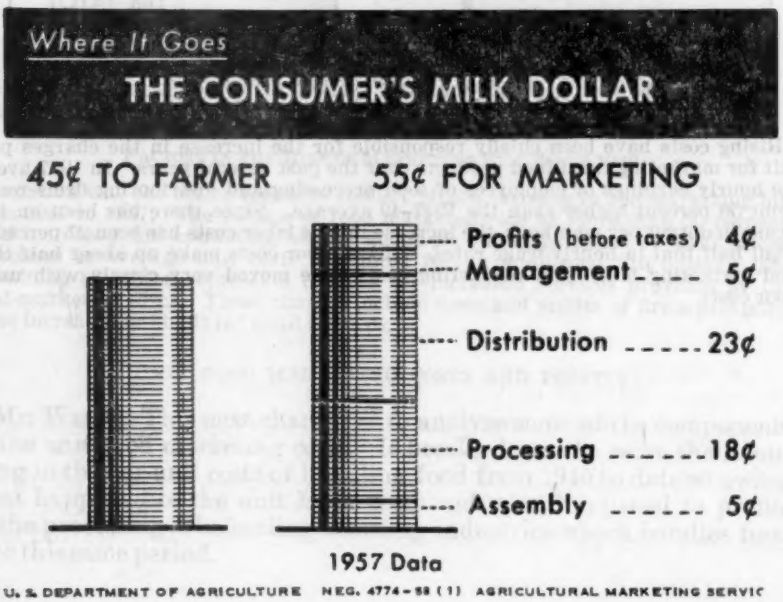
CONSUMERS BREAD PRICE


Where It Goes
CONSUMER'S BREAD PRICE
Av. Price in 1957 18.8¢
0.7¢*
Farmer, 3.2¢
Miller, 2.0¢
(Includes grain handling and transportation)
Baker, 10.5¢
Retailer, 3.1¢
AT PARITY PRICE OF $2.50 PER BU. WHEAT FARMERS WOULD HAVE RECEIVED AN ADDITIONAL 0.7¢. THIS ADDITION WOULD HAVE RAISED THE RETAIL PRICE TO 19.5¢.
U. S. DEPARTMENT OF AGRICULTURE
NEG. 4773-58 (1) AGRICULTURAL MARKETING SERVICE

CONSUMER'S BREAD PRICE

Urban consumers paid an average of 18.8 cents per pound loaf of white bread in 1957. For the wheat and other ingredients used in that pound of bread, farmers received 3.2 cents or 17 percent of the retail price.

CONSUMER'S MILK DOLLAR

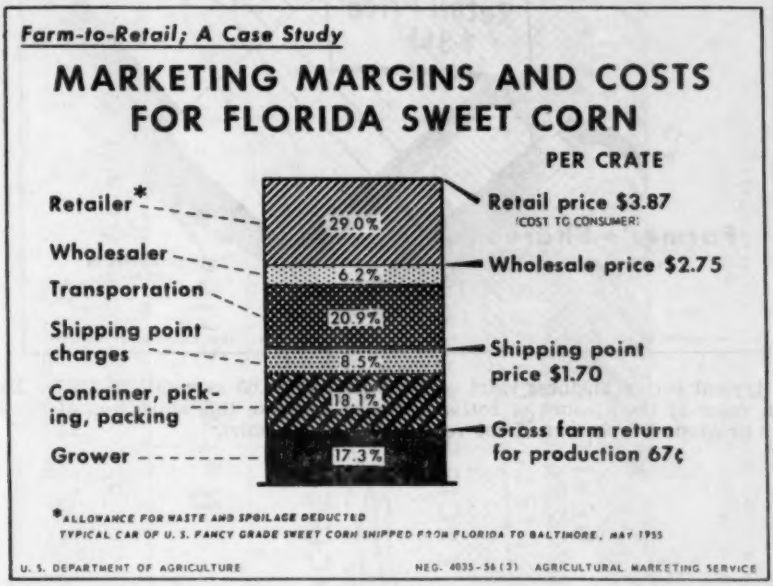


THE CONSUMER'S MILK DOLLAR

Urban consumers paid an average of 24.2 (average BLS prices, based mainly on single quart rather than multiquart containers) cents per quart of milk in 1957. Farmers received about 10.9 cents per quart or 45 percent of the retail price. This was the share that they received in 1955 and 1956.

The marketing margin accounted for the remaining 55 cents out of each retail dollar spent by consumers on fluid milk. The chart indicates the breakdown of that 55 cents.

MARKETING MARGINS AND COSTS FOR FLORIDA SWEET CORN



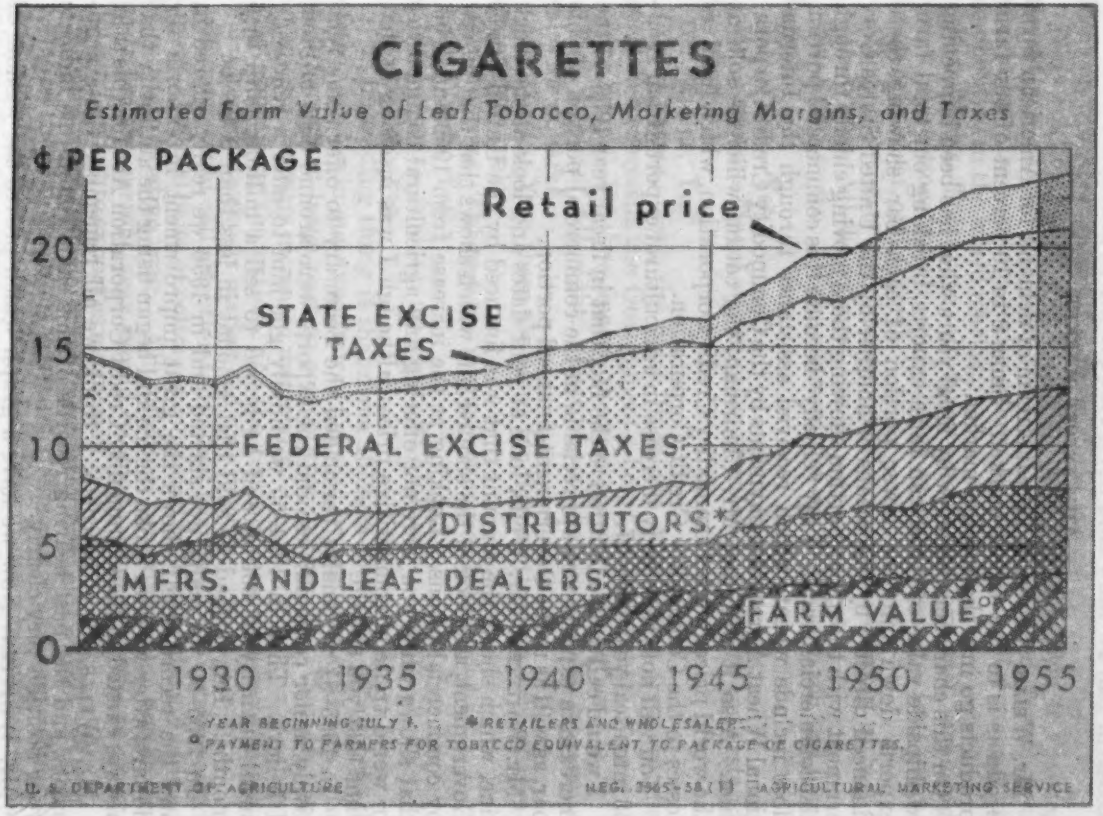
MARKETING MARGINS AND COSTS FOR FLORIDA SWEET CORN

Farmers around Belle Glade, Fla., received a gross return of $0.67 per crate for sweet corn shipped to Baltimore during May 1955. Out of the $0.67, the grower had to cover all costs of production. After the cost of containers, picking, packing, and shipping point marketing charges were added, the f. o. b., shipping point price was $1.70 per crate. The wholesale selling price was $2.75 and the retail price was $3.87 per crate.

WHAT FARMER GETS FOR COTTON IN BUSINESS SHIRT

WHAT FARMER GETS FOR COTTON IN BUSINESS SHIRT
Retail Price $3.65
Farmer's Share 28¢
DATA BASED ON 1957 PRICES
U. S. DEPARTMENT OF AGRICULTURE
NEG. 4775-58 (1) AGRICULTURAL MARKETING SERVICE

A typical cotton business shirt sold for around $3.65 at retail in 1957. The farm value of the amount of cotton required to make this shirt was about 28 cents or around 8 percent of the retail price of the shirt.


CIGARETTES
Estimated Farm Value of Leaf Tobacco, Marketing Margins, and Taxes
¢ PER PACKAGE
Retail price
STATE EXCISE TAXES
FEDERAL EXCISE TAXES
DISTRIBUTORS*
MFRS. AND LEAF DEALERS
FARM VALUE°
20
15
10
5
0
1930
1935
1940
1945
1950
1955
YEAR BEGINNING JULY 1.
* RETAILERS AND WHOLESALERS.
° PAYMENT TO FARMERS FOR TOBACCO EQUIVALENT TO PACKAGE OF CIGARETTES.
U. S. DEPARTMENT OF AGRICULTURE
NEG. 3965-58 (1) AGRICULTURAL MARKETING SERVICE

CIGARETTES: ESTIMATED FARM VALUE OF LEAF TOBACCO, MARKETING MARGINS, AND TAXES

The average retail price of cigarettes for the fiscal year 1957 was 23.8 cents per package. Of this amount, 3.64 cents or 15 percent was the farm value of the leaf tobacco. The marketing margin accounted for around 40 percent and Federal and State excise taxes accounted for the balance of 45 percent.

THE EXPORT MARKET

Mr. WELLS. The second great stream of demand for American farm products is to the export market. Some 8 to 10 percent of our farm products go into the foreign market.

On this chart here we show by fiscal years what has been happening to shipside value of American farm exports, breaking our total farm exports down into the lower portion of each bar showing those financed directly by one means or another by the United States Government with the upper portion showing those moving chiefly through the commercial trade. I say "chiefly" because this commercial portion does include wheat, which received assistance through the International Wheat Agreement payments by the Commodity Credit Corporation. Also it includes, Mr. Chairman, the cotton which is sold at the world price by the Commodity Credit Corporation, which involves losses to the Commodity Credit Corporation.

You will note the steady increase in agricultural exports from 1952–53 into fiscal year 1956–57.

I would call your attention to the fact that in fiscal year 1956–57 the increase in exports was appreciable in the commercial portion of this bar, as well as in the Government-financed portion.

Mr. WHITTEN. Mr. Wells, look at your dates and look at the black line, which shows the amount that was financed by the United States Government, and look at the slanted line which shows that that moved by commercial means. Looking at the increase from 1952 and 1953, that shows when you were not offering any agricultural commodities in world trade at competitive prices, although I was insisting at that time that you should.

In 1953–54 we finally persuaded the Secretary to offer some relatively minor commodities, and the exports were around $500 million, I believe. Then in 1954–55 we finally got him to offer a relatively small quantity of cotton and he hoped to sell a million bales in 6 months. But instead he sold that amount in less than 6 weeks.

In 1955–56 we really got started and in 1956 we really offered it, and the record itself shows the great improvement in exports for dollars, after we once broke the ice and began using the authority that always existed in the Commodity Credit Corporation Act for this sale.

Mr. WELLS. Mr. Chairman, I think we all remember those arguments, and the past hearing records of this same committee indicate your position very clearly.

Mr. WHITTEN. Now we have a graph which proves the wisdom of those arguments.

Mr. SANTANGELO. Mr. Wells, the farm exports you refer to, are they basic commodities or the nonbasic commodities?

Mr. WHITTEN. If the commodities were in private hands and continued there, presumably they were moving outside the Government. So what I have reference to are all the commodities that the Govern-

ment has control of through the Commodity Credit Corporation, which include both basics and perishables.

But, at the outset, in 1952 and 1953, we had a huge quantity of all classes and types of commodities which the Commodity Credit Corporation had in storage. We were holding them, so far as foreign sales were concerned, at our support level, plus what we had invested in them, which, of course, was above world prices.

We were not selling any of them. I finally got them to realize, that if you do not offer what you have, and do not need, for what it will bring, you have not really offered it. It is a case of making it competitive in the world market.

Mr. WELLS. These are all farm commodity exports, including wheat and cotton, but also such things as dairy products, feed grain, fruit, some meat, and so forth.

Mr. SANTANGELO. All the commodities you are referring to here?

Mr. WELLS. All the commodities.

Mr. SANTANGELO. All the commodities are included, basic and nonbasic?

Mr. WELLS. Yes.

Mr. VURSELL. May I ask another question, so I better understand the chart?

Mr. WELLS. Yes.

Mr. VURSELL. Now, the black lines, the four center ones are the ones that represent the Government's help; is that right?

Mr. WELLS. Yes; we finance these in one way or another.

Mr. VURSELL. All right. That above the black lines represents sales for dollars?

Mr. WELLS. Yes; these are sales for dollars through normal commercial channels.

Mr. VURSELL. Through the normal commercial channels?

Mr. WELLS. Yes.

Mr. VURSELL. And it is up now to $4.7 billion?

Mr. WELLS. Yes.

The interesting thing is that from 1952–53 into 1955–56 almost all of the increase in our exports was financed by our own activities. In 1956–57, due in large part to competitive pricing, Mr. Vursells, our commercial exports increased materially.

In appraising the outlook for the coming year, you have to ask: What kind of an export market can we expect?

There I would call attention to the fact that in 1956–57 we exported almost 7,600,000 bales of cotton as compared with only about 2 million bales the preceding year. All pipelines were dry. Our cotton exports for the current year should be good. But they will be down. We can't expect to export as much as in 1956–57.

Mr. WHITTEN. I do not want to get away from this thing.

One of the major reasons you cannot expect it is that our supply of good cotton is down to a point where it is at disaster levels. In the opinion of many experts, the acreage is down to where it is doubtful whether we have cotton to supply what the people want to buy. We will have some ragtag and some undesirable qualities. But I have been trying to convince the Department that you cannot satisfy the customer by selling an old jalopy when he wants to continue to buy the kind of car he has been buying.

Mr. WELLS. You cannot sell if you do not have the product, Mr. Chairman.

We estimate that this year we will move close to 5.5 million bales of cotton. As you move to the end of the current cotton year we run into a situation which we have been talking about.

Mr. WHITTEN. You cannot sell it if you do not have it to sell.

Mr. WELLS. We also moved about 540 million bushels of wheat in 1956–57, which is probably more than we will ship in 1957–58.

Mr. NATCHER. During the past several weeks the Department issued a bulletin stating that 4.7 billion was the amount of export for 1957, and that this was the highest amount in our history.

Mr. WELLS. Yes, sir.

Mr. NATCHER. And of that 4,700 million, you show on this chart that 2,800 million of that amount was realized from commercial sales for dollars, with a part of that 2,800 million including sales of Commodity Credit Corporation commodities at less than cost. Is that not correct?

Mr. WELLS. Yes.

Mr. NATCHER. And in addition to that, of the $4.7 billion, $1.9 billion of that amount is under Government programs which include sales for foreign countries, barter, and donations; is that correct?

Mr. WELLS. That is correct.

Mr. NATCHER. Mr. Wells, how does the $4.7 billion compare with total exports for 1946 to 1955 average of $3.3 billion?

Mr. WELLS. This figure for 1956–57 is certainly the largest dollar volume in history, and I believe that it is the largest physical volume, Mr. Natcher.

Mr. NATCHER. But it does include the Commodity Credit Corporation's commodities, sold at less than the cost, and also includes sales for foreign currency, barter, and also donations?

Mr. WELLS. That is correct. That is the point I am making, and the next two charts show in more detail.

Going back to the 10 years 1946–55. In 1946 and for a few years following we had a world food crisis, where we were selling our products in some instances at less than the world prices, for various reasons. Then we had this very sharp drop, from 1951–52 into 1952–53, Mr. Natcher, right in the middle of that period.

Mr. NATCHER. Yes.

Mr. WELLS. In other words, I think we have done very well, building it back up to where we are. I certainly hope that we can keep it at a high volume.

Mr. WHITTEN. Before we get away from that chart, I believe it would be helpful, Mr. Wells, if you would put beside each of these a figure indicating the quantity in black and the quantity in the lined area, which makes the total at the top.

Mr. WELLS. In other words, you would like the chart with figures for the subtotals. Yes; we will do that.

Mr. WHITTEN. Put the figures on the side so we can see what part of the total is in each category.

Mr. WELLS. We will have the draftsman put that on there before we send it back.

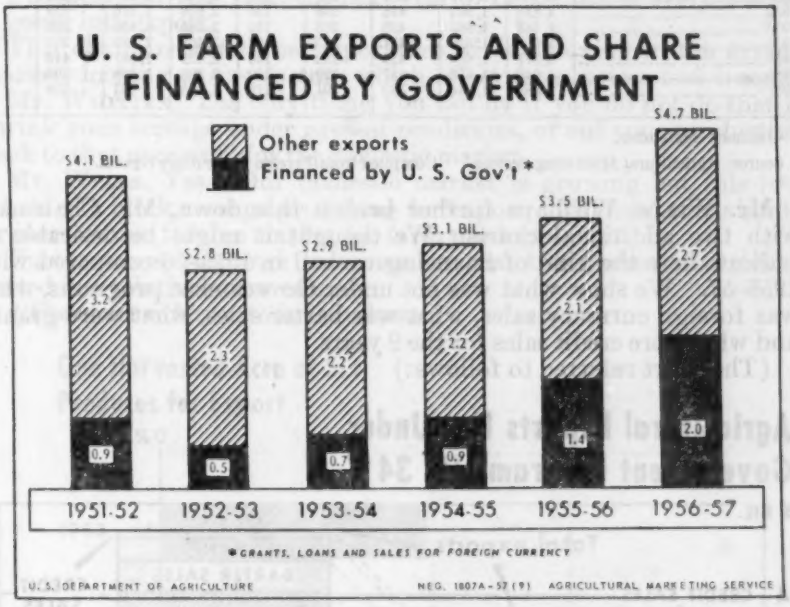
Mr. SANTANGELO. I think it would be helpful also if you in one of the notes make reference to the fact that the upper shading includes the exports by the Commodity Credit Corporation at less than cost.

Mr. WELLS. Not exports by the Commodity Credit Corporation; exports of Commodity Credit Corporation commodities which we turn over to commercial firms at less than cost.

Mr. SANTANGELO. It includes these exports at less than cost?

Mr. WELLS. At the same time, however, those exports were selling at competitive prices, which is the only way you can sell.

(The chart and table referred to are as follows:)



UNITED STATES FARM EXPORTS AND SHARE FINANCED

Agricultural exports have increased in each of the last 4 fiscal years and in 1956–57 were at a record level, both in terms of value and volume. The chart also illustrates the proportion of our exports financed by the United States Government under grants, loans, and sales for foreign currency. Additional quantities have moved under the barter program. In the last year, sales of cotton from CCC stocks at competitive world prices have been large. Also subsidies were paid to wheat exporters in kind, or in the case of flour, in cash, to cover the difference between the International Wheat Agreement price and domestic market prices. Competitive sales of Government-held stocks and wheat payments helped increase commercial sales.

Imports of agricultural products, United States, 1939 and 1946–57

[In millions of dollars]

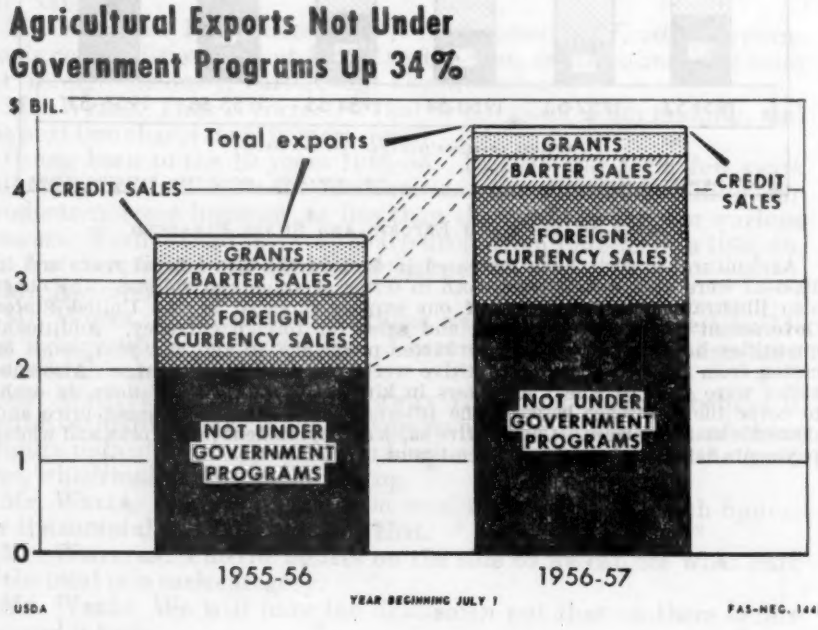
Year	Total agriculture	Supplementary				Complementary			
		Total	Sugar	Wool	Meats	Total	Coffee	Rubber	Cocoa
1939	1,118	526	125	24	20	592	140	179	28
1946	2,297	1,196	197	235	5	1,101	470	236	57
1947	2,760	1,406	411	160	12	1,354	599	318	152
1948	3,149	1,618	313	214	78	1,531	697	309	194
1949	2,893	1,440	372	165	62	1,453	793	240	124
1950	3,990	1,807	381	282	96	2,183	1,091	458	167
1951	5,166	2,319	387	590	165	2,847	1,358	809	197
1952	4,518	1,902	416	299	139	2,616	1,376	619	178
1953	4,183	1,803	425	203	162	2,380	1,469	331	167
1954	3,961	1,558	411	145	167	2,403	1,486	262	252
1955	3,971	1,550	415	152	148	2,421	1,357	442	185
1956	3,948	1,552	437	129	129	2,395	1,438	398	145
1957 [1]	2,889	1,244	382	91	113	1,645	993	258	94

[1] January–September.

Source: Agricultural Marketing Service. Compiled from Foreign Agriculture reports.

Mr. WELLS. We have further broken this down, Mr. Chairman, with two additional charts. We thought it might be desirable to indicate here the kind of financing we had in 1955–56 compared with 1956–57. We show what was not under Government programs, what was foreign currency sales, what was barter sales, what were grants, and what were credit sales for the 2 years.

(The chart referred to follows:)



AGRICULTURAL EXPORTS NOT UNDER GOVERNMENT PROGRAMS UP 34 PERCENT

Although 40 percent of United States agricultural exports were under Government programs in fiscal year 1957, more United States agricultural exports also moved as commercial sales than in any of the preceding 4 years. Com-

mercial sales of agricultural commodities increased about $700 million over fiscal year 1956. The large growth in Government program exports in the past 2 years was due primarily to shipments under Public Law 480. In fiscal year 1957, foreign currency sales accounted for 27 percent of agricultural exports; barter sales 7 percent; emergency relief and welfare donations 5 percent; and credit sales, made primarily through the Export-Import Bank 1½ percent.

Mr. WELLS. And the following chart indicates something of the importance of the export market to American farmers generally, especially the crop farmers.

In 1953, 9.8 percent of the production of our crop acreage went into export. It has built up to where, in 1956, it was 16.2 percent.

Probably, for this year, the next year or two, 1 out of every 8 acres is going into export.

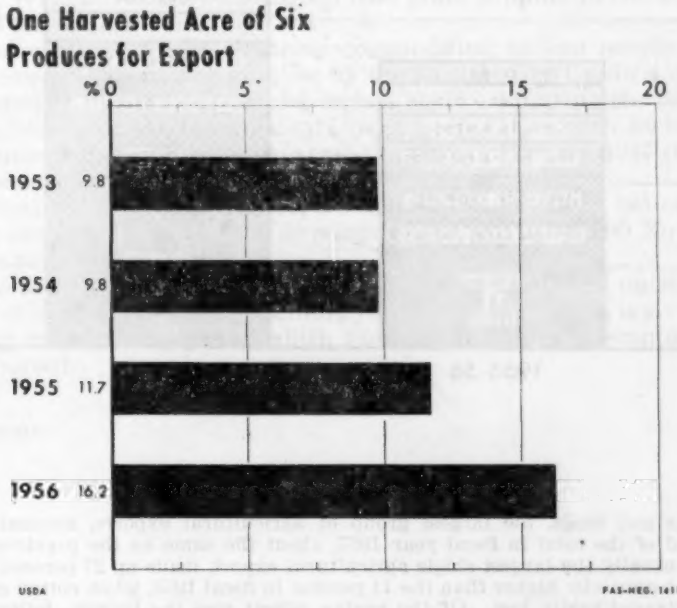
This chart indicates the importance of our staying in the export market, looking at the factors which affect farm prices and income.

Mr. WHITTEN. The only thing you can do if you do not do that is shrink your acreage under present conditions, or cut your production back to that necessary for the domestic market.

Mr. WELLS. Yes. Our domestic market is growing but this is a whale of a block acreage producing for export. We need to maintain or increase our foreign market for farm products.

Furthermore, you have to remember that these acres are concentrated in a relatively few crops.

(The chart referred to is as follows:)



ONE HARVESTED ACRE OF SIX PRODUCES FOR EXPORT

In supplying the agricultural exports of 1956, the equivalent of 1 United States harvested acre of every 6 produced for foreign customers. In supporting that year's level of exports, the production of over 50 million acres of cropland moved to foreign customers. Rough preliminary calculations indicate that exports accounted for a little smaller percentage of cropland harvested in 1957.

Mr. WELLS. The next chart indicates the breakdown of exports by commodities. In other words, taking the total value of farm exports, this chart shows the proportion accounted for by wheat and feed grains, the first section on the chart, the next section is cotton, exclusive of linters, then livestock products, vegetable oils and oil seeds, fruits and vegetables, tobacco, and others.

For a large number of our farmers, exports are far more important than 1 acre out of 6 or 8. It is nearer 1 acre out of 3.

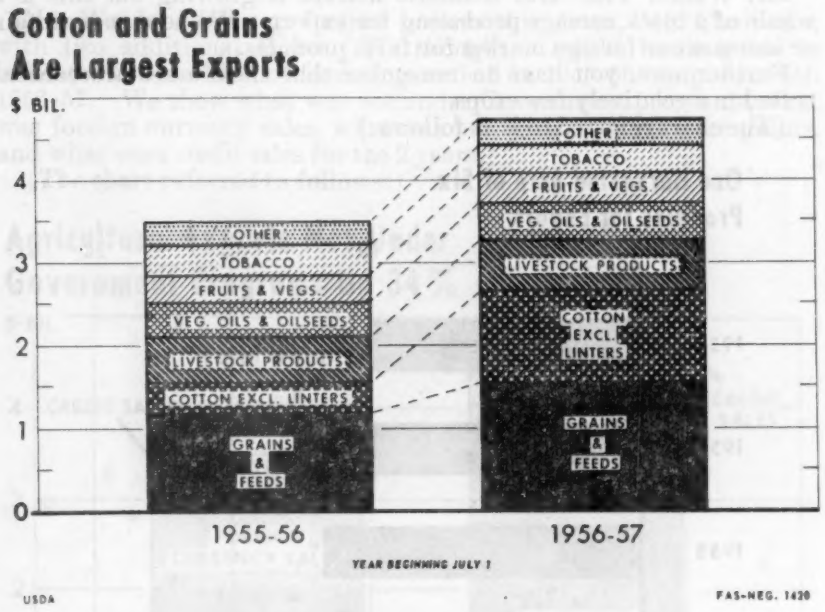
Mr. NATCHER. Mr. Wells, that chart shows as far as tobacco is concerned, about the same amount as for 1955–56; is that not correct?

Mr. WELLS. Yes.

Mr. NATCHER. 1956–57.

Mr. WELLS. Very close to it, Mr. Natcher. As to the demand for tobacco, of course, you are well aware that you stock or age tobacco for some time and the demand for it is relatively smooth, unless there is some kind of disturbance in the market.

(The chart referred to is as follows:)



COTTON AND GRAINS ARE LARGEST EXPORTS

Grains and feeds, the largest group of agricultural exports, accounted for one-third of the total in fiscal year 1957, about the same as the previous year. Cotton, usually the largest single agricultural export, made up 27 percent of the total, substantially higher than the 11 percent in fiscal 1956, when cotton exports were extraordinarily low. Of the grains, wheat was the largest, followed by feed grains, rice, and feeds and fodders (mainly protein meals).

Livestock and products accounted for 13 percent; vegetable oils and oilseeds, 10 percent; fruits and vegetables, 8 percent; and tobacco, 7 percent.

WHEAT, COTTON, AND CORN STOCKS

Mr. WELLS. We have talked something about consumer demand and export demand. The third type of demand in the United States for farm products is a "reservation" demand—that is, the demand for for stocks to hold from 1 year to the next, and over the last several years, for some of our main crops, a very large block of the supply has been held in stocks. This chart traces for wheat, cotton, and corn, the year-end stocks story for the last several years, and gives the best estimate we can make, taking into account supplies at last harvest, and current and consumption rates, of the carryovers we can expect next summer and fall.

We anticipate some decrease in wheat stocks, a modest one; and a decrease again in cotton stocks, which is tied in with your quality situation, Mr. Whitten, because the Commodity Credit Corporation has recently been releasing the cotton which it took over a short time ago, and when those stocks are worked down, we become increasingly independent on this year's crop.

But with big exports for 2 years and the short crop this year, cotton stocks are coming down materially.

However, note that with a large corn crop, a heavy barley crop, a good oats crop, and a record grain sorghum crop—Mr. Randall, it must have been twice the previous record, this year?

Mr. RANDALL. Yes.

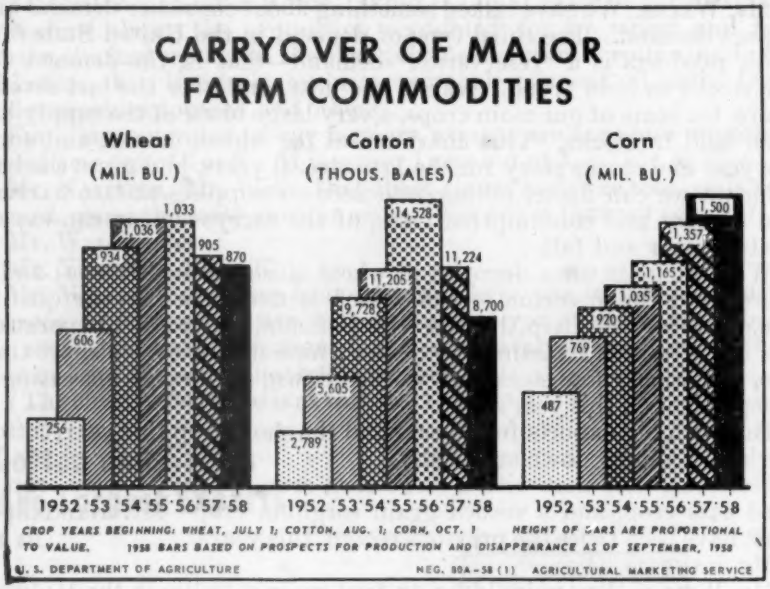
Mr. WELLS. We are building up feed grain supplies in the Midwest and West.

Most of these stocks for these commodities, as you people know, are financed one way or another by the Commodity Credit Corporation, and as in previous years I have a chart comparing the financial commitments of the Commodity Credit Corporation with its borrowing authority, covering in this case the period January 1947 through November 1957.

Actually, in November 1957, we had $7,188,000,000, I believe, tied up in inventories and loans, as compared to $8,170,000,000 November 30 the year before.

The difference between the $7.188 billion and the total outstanding CCC obligations of $12.690 billion, you people well know, is accounted for by various outlays for which the Corporation will eventually be reimbursed.

(The charts and table referred to are as follows:)



Carryover of Farm Commodities

Stocks of wheat and cotton declined during the 1956–57 marketing year from record high levels. These were the first substantial reductions in stocks of these commodities since 1952. A further decline in cotton stocks during the current marketing year is likely. A modest decline in stocks of wheat is possible. Carryover stocks of corn have increased each year since 1952 and are estimated to reach a record high level of 1½ billion bushels as of October 1, 1958.

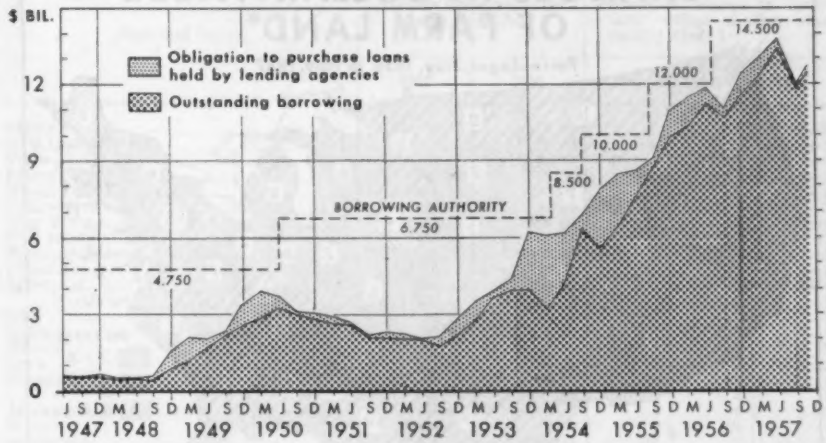
Wheat, cotton, and corn carryover as percentage of production and disappearance

Crop, year, and month	Carryover, actual	Carryover as percentage of 1955–57 average production	Carryover as percentage of 1955–57 average disappearance [1]
Wheat:	*Million bushels*	*Percent*	*Percent*
July 1:			
1957	905	94	89
1958 [1]	870	90	86
Corn:			
Oct. 1:			
1957	1,357	40	42
1958 [1]	1,500	45	47
Cotton:	*1,000 bales*		
Aug. 1:			
1957	11,224	86	82
1958 [1]	8,700	67	64

[1] Disappearance for 1957–58 marketing year and carryover at the beginning of 1958 marketing year estimated on the basis of prospects as of December 1957.

COMMODITY CREDIT CORPORATION

COMPARISON OF OUTSTANDING BORROWINGS, AND OBLIGATIONS TO PURCHASE LOANS HELD BY LENDING AGENCIES, WITH BORROWING AUTHORITY, BY QUARTERS, JUNE 1947 TO DATE


$ BIL.
12
9
6
3
0
Obligation to purchase loans held by lending agencies
Outstanding borrowing
14.500
12.000
10.000
8.500
BORROWING AUTHORITY
6.750
4.750
J S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D
1947 1948 1949 1950 1951 1952 1953 1954 1955 1956 1957

COMMODITY CREDIT CORPORATION COMPARISON OF OUTSTANDING BORROWINGS AND OBLIGATIONS TO PURCHASE LOANS HELD BY LENDING AGENCIES, WITH BORROWING AUTHORITY, BY QUARTERS, JUNE 1947 TO DATE

After declining from a pre-Korean peak of $3.9 billion in March 1950 to $2 billion in June 1952, Commodity Credit Corporation outstanding borrowings and obligations to purchase loans have increased almost steadily. As of November 30, 1957, the total was $12.7 billion. About $7.2 billion of this was accounted for commodity loans and inventories. The balance of the funds in use cover losses and operating costs for other programs for which the CCC has not yet been reimbursed. CCC borrowing authority was increased to $14.5 billion on August 1, 1956.

FARMLAND VALUES

Mr. WELLS. Once again I have a chart showing the average change in land values, from November 1956 in this case to November 1957, and once again, despite the fact there has been no material improvement in farm incomes, land values over the last 12 months have been increasing. This chart shows one of the most uniform State-by-State patterns of increase that I have seen in quite a few years. There is increase in every State, Maine being the low State with a 2 percent increase and, I believe, Florida the high State with 15 percent.

(The chart referred to is as follows:)

CHANGES IN DOLLAR VALUE OF FARM LAND*
Percentages, Nov. 1956 to Nov. 1957
INCREASE
2 - 4
5 - 7
8 & over
U. S. INCREASE
8 %
*BASED ON INDEX NUMBERS OF VALUE PER ACRE, INCLUDING IMPROVEMENTS.
U.S. DEPARTMENT OF AGRICULTURE
NEG. 57(11)-2191 AGRICULTURAL RESEARCH SERVICE

CHANGES IN THE DOLLAR VALUE OF FARMLAND

The average value of farmland per acre increased 8 percent from November 1956 to November 1957. All but 2 States, Maine and Iowa, showed increases of 5 percent or more. Three groups of States had gains of 8 percent or more. One group extends from Georgia and Florida westward to include Texas. The second includes the northernmost tier of States from Minnesota to Washington. The third includes most of the Eastern States that have large and expanding urban centers, notably southern New England, New Jersey, Delaware, and Maryland. This increase for the year ending November 1957 was the largest for a similar period since November 1951 and resulted in a new record high value of farm real estate.

Mr. WHITTEN. I would like by tomorrow to have a listing by States of the value of farmlands for the last several years. I am sure that that information is available, Mr. Grant. I do not know who would have it.

Mr. GRANT. We will furnish that for the record.

(The information referred to follows:)

Farm real estate: Average dollar value per acre, Mar. 1, 1950 and 1957, and percentage change in farmland values during the year ended Mar. 1, 1950, 1958, and 1957 [1]

State and region	Average dollar value per acre, Mar. 1—		Percentage change in farmland values during year ending Mar. 1—		
	1957	1950	1957	1956	1950
Maine	64.62	54.17	7	3	−9
New Hampshire	93.95	72.85	9	3	−5
Vermont	65.17	55.68	5	3	−5
Massachusetts	248.35	189.54	8	2	−5
Rhode Island	384.96	232.02	9	4	−3
Connecticut	334.12	247.77	10	4	−2
New York	123.89	91.62	7	4	−1
New Jersey	482.85	292.84	9	8	12
Pennsylvania	161.75	107.19	8	7	−5
Delaware	180.97	114.11	10	4	−3
Maryland	201.80	125.07	9	3	−4
Northeast	155.65	107.73	7	6	−3
Ohio	219.12	136.34	7	7	−4
Indiana	223.85	136.90	8	5	−1
Illinois	260.15	174.15	8	5	3
Iowa	215.99	160.71	4	2	2
Missouri	92.64	63.66	9	3	1
Corn Belt	196.68	132.54	7	4	1
Michigan	155.36	98.52	8	6	−2
Wisconsin	114.77	88.58	9	4	−4
Minnesota	129.44	84.46	10	7	3
Lake States	130.80	89.07	9	6	−1
Virginia	120.42	82.01	6	6	−5
West Virginia	77.83	59.31	7	6	−10
North Carolina	142.54	98.65	5	4	1
Kentucky	104.94	80.87	10	0	−3
Tennessee	101.81	77.26	7	3	−2
Appalachian	113.62	82.32	7	3	−2
South Carolina	98.13	69.06	8	4	−9
Georgia	69.41	43.28	8	6	−7
Florida	140.82	57.23	17	11	3
Alabama	66.53	48.69	6	7	−6
Southeast	90.41	51.94	11	7	−5
Mississippi	86.68	55.42	8	7	0
Arkansas	87.92	60.18	9	5	−4
Louisiana	130.97	82.21	10	6	−4
Delta States	97.24	63.10	9	6	−3
Oklahoma	69.82	51.42	7	1	−4
Texas	68.81	46.21	9	1	−2
Southern Plains	69.01	52.80	8	1	−3
North Dakota	40.10	28.86	10	3	−3
South Dakota	41.42	31.30	4	1	0
Nebraska	71.08	57.62	−2	−1	−7
Kansas	85.91	65.80	2	3	−2
Northern Plains	60.83	46.82	2	2	−3
Montana	27.38	16.86	7	4	−3
Idaho	97.36	69.82	4	5	2
Wyoming	15.13	13.21	−2	0	−4
Colorado	38.08	31.93	−2	−3	−3
New Mexico	21.25	15.01	−3	1	−1
Arizona	27.06	15.13	1	5	−3
Utah	47.44	43.37	1	−2	3
Nevada	28.34	19.24	2	2	0
Mountain	30.92	22.03	1	1	−1
Washington	123.95	84.64	5	2	−1
Oregon	84.02	59.82	5	2	−2
California	263.44	154.32	7	7	−3
Pacific	181.89	112.19	7	5	−2
United States	94.52	64.96	7	4	−2

[1] Farm real estate includes farmland and buildings. Percentage change based on index of average value per acre, including improvements.

Mr. WELLS. I tried to do some calculating in my own mind at any rate as to why land values continue to go up with farm income apparently out of step. And this next chart showing farmland purchases for farm enlargement is, at any rate to me, a most interesting chart. The actual amount of farmland which is being offered and changing hands is relatively small. This chart shows the percent of land transfers for farm enlargement purposes by farming areas for

the United States for the last 2 years, the years ending March 1, 1956 and 1957. In other words, going farmers buying a piece of land to add to the farm they already have. And the small inset shows for the United States as a whole what has been happening from 1949 to date.

You will note the steady increase in percent of transfers accounted for by the purchase of land for farm enlargement. For 1957, probably 37 and 38 percent of the actual transfers were for enlargement purposes.

In other words, the purchasers are mostly farmers who are already operating farms, people who for the most part already have farm machinery with the capacity to handle the additional unit.

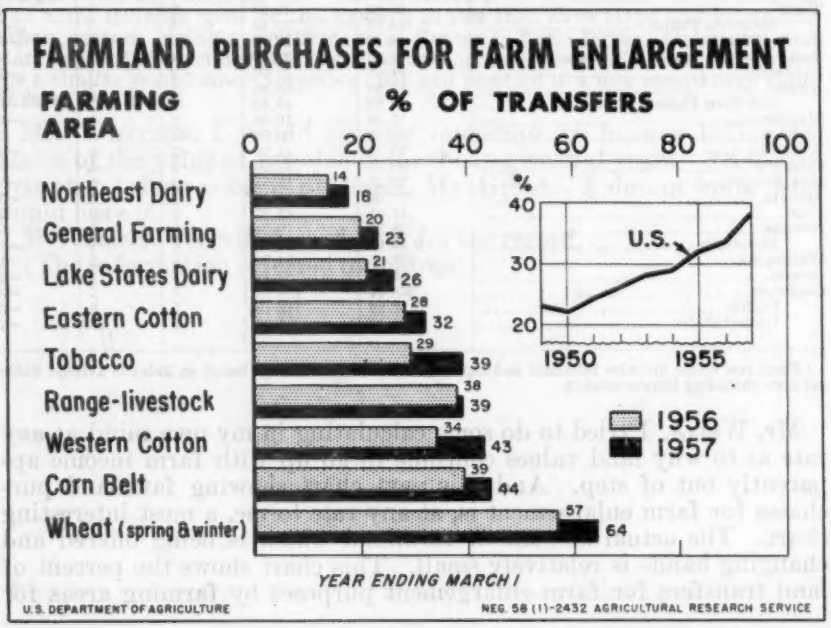
Meanwhile, we know that almost a third of the land transfers involve nonfarm purchasers of one kind or another. Now, there is some duplication between farm enlargement and nonfarm purchasers in the sense that some landlords also buy additional tracts to enlarge their farms. And they would be both in the transfer category and the nonfarm purchaser category.

What I am saying is that it looks as if about 2 out of every 3 land transfers the last couple of years have not been what many people may think of as an ordinary sale, that is, a sale of a whole farm to a new farmer to start farming, but a sale which involved a nonfarm purchaser for some reason or a sale which involved farm enlargement for some reason.

Mr. SANTANGELO. Wouldn't that indicate that the small farmer is going out of business and the farmer is enlarging his acreage so as to intensify and expand, and the small farmer is going out of business?

Mr. WELLS. Certainly our farm population figures and this farm enlargement story both indicate an increase in the size of farms.

(The chart referred to is as follows:)



FARMLAND PURCHASES FOR FARM ENLARGEMENT

This chart illustrates the percentage of purchases of farmland in 1956 and 1957 which were for the purpose of increasing the size of existing farm units. For the country as a whole, there has been a steadily increasing trend in this percentage, as is indicated in the inset on the chart. In every type of farming region, the percentage for 1957 is greater than that for 1956. By regions, the 1957 percentages range from a low of 18 percent in the northeast dairy region to a high of 64 percent in the spring and winter wheat region.

Mr. HORAN. It is not quite that simple. In order to justify the mechanization of farming, he has to have acreage enough to make the maximum use of the machinery he has to have to be in competition in today's agriculture.

The small farmer just cannot stay in business, not and be competitive with his neighbor who has machinery, unless he, too, can have the same.

Mr. SANTANGELO. That explains why he goes out of business. But the fact is he does go out of business.

Mr. HORAN. That is involved later on when we get into the farmer's home. That is involved there. You cannot make a loan to a man who is going to go broke.

So today the tendency is in a farmer's home to attempt to give him an economic unit. We do have, Mr. Chairman—you will recall for the last 6 years we have been asking for these studies on the economic unit. We have it now. It was published about a month ago. It doesn't look good to have an income of $3,500 a year. You have to have a capital investment on the Montana wheat farm of $122,000. The best place in the United States is on the eastern Oklahoma cotton farm—$17,000.

Mr. WELLS. I know the study you are talking about. The incomes you are referring to are the return to labor and management over and above a mortgage or current interest rate on money, I believe.

Mr. HORAN. Yes.

Mr. VURSELL. May I make an observation and give you the benefit of some knowledge that I got in 2 or 3 months while I was home?

I got ahold of a good farm-real-estate man, and I had him looking in three counties for a farm. And out of the 3 counties—and I was looking at many farms—I only found about 3 that could be bought, one owned by a coal operator in one of the towns; the other fellow wanted to go into some other line of business; and the other fellow wanted to sell to get closer to town, maybe to buy another farm.

Now, this idea of driving the small farmer out of business is complete bunk. There isn't anything to it at all. The smaller farmer is going out of business in two ways. The small farmer is becoming a big farmer. And I know many instances of that kind. The bigger farmer has the situation of when the older people retire, he can buy part of that land when they cannot farm it any longer. It is just like the great campaign that was put on by a southern gentleman from Texas that was going to keep all the little business concerns, private business, going and prevent the chainstores from taking over the country.

But he did pretty well, I think, in promoting that idea, because he is still in Congress. But the chainstores came. Now, there are going to be less farmers yet. And one reason for that is if there is anybody that has been putting the little farmer out of business, it is the people

who have got their wages so high in the Walter Reuther organization that they raise—they have doubled the cost of the machinery and doubled the investment that you have to have for a farm to stay in business.

And he has got to have 50 or 60 thousand dollars in southern Illinois where the land is only worth $150 an acre on an average. He has got to have $50,000 or $60,000 worth of equipment in addition to his farm. And he does not consider an economic unit sufficient unless it is from 250 to 300 or 400 acres, whereas, in the horse-and-buggy days when we had more farmers, I remember well when 160 acres—if a man had that much he was a rich man and a very prosperous fellow who was able to have 160 acres. So, this idea of putting the small farmer out of business is nothing but absolute bunk.

Mr. WHITTEN. Well, may I say this: I think all of us recognize the validity of some of the facts which have been mentioned. I would point out certain other factors, one of which is the desire of people with money, in a time when your dollar gets cheaper and cheaper, to have some real estate or something he can put his hands on, whether the immediate return is in proportion to the investment or not.

Further, the abnormal demand not only for people in the armed services but for those engaged in manufacturing and in handling defense contracts drains off the labor to the point that a farmer is required to mechanize if he can because of the scarcity of farm labor.

You just cannot find farm labor at any kind of rate that the farmer can pay. I am not trying to say one outweighs the other, but a combination of all these things is a part of the American picture today—a part of the American farm picture.

Mr. VURSELL. There isn't any doubt but that high wages offered in factories are taking young people to the cities and off the farms. I do not know whether it is good economy in the long run to the Nation or not; but that is the way we are going.

Mr. WELLS. This has been happening for a long time. I would say this on the land-value picture: For the last 2 or 3 years we have been puzzling about this land-valuation situation. I think part of it is due from the fact that farmers were rather conservative during the war and early inflation period so that land values have by now only risen about as much as farm prices now. In other words, land values come up much slower. I think the rapid increase in the population of the United States——

Mr. VURSELL. If I may make a suggestion: I think for a good many of the people in the cities—and people that aren't in the cities, too—are bidding up the price of this land because they want something substantial probably that can't be taken away from them. They are afraid of the economic situation of the future.

Mr. WELLS. There are a great many people who think land is a good long-term investment.

Mr. VURSELL. That is right.

Mr. HORAN. An interesting thing is that that chart doesn't jive with the one you showed us where the land values are increasing.

Mr. WELLS. This is not land values.

Mr. HORAN. That is per income. Income I presume is made off of the land.

Mr. WELLS. That is why I have this chart on transfers for farm enlargement purposes and was engaging in this discussion. I have been trying to calculate why with the kind of farm income picture we have had, land values have continued to go up. They undoubtedly have. I have recently talked, for example, to three well-informed banking people, and they have told what you have told me, Mr. Vursell, that the good farms are not for sale.

NET FARM INCOME BY REGIONS

Mr. WELLS. This chart traces from 1949 to date the realized net income of farmers from farming by regions. The black line is total; and the dotted line is the best net income per farm we can estimate.

You will notice what the wet weather did to farm income in the South Central and South Atlantic regions the last year. A large part of the reduced incomes in these regions traces to the effect of continuing rain on the size and quality of the cotton crop.

This chart goes back to 1949 because that is as far back as we could carry these net income estimates by States at the time the money was supplied to start this work.

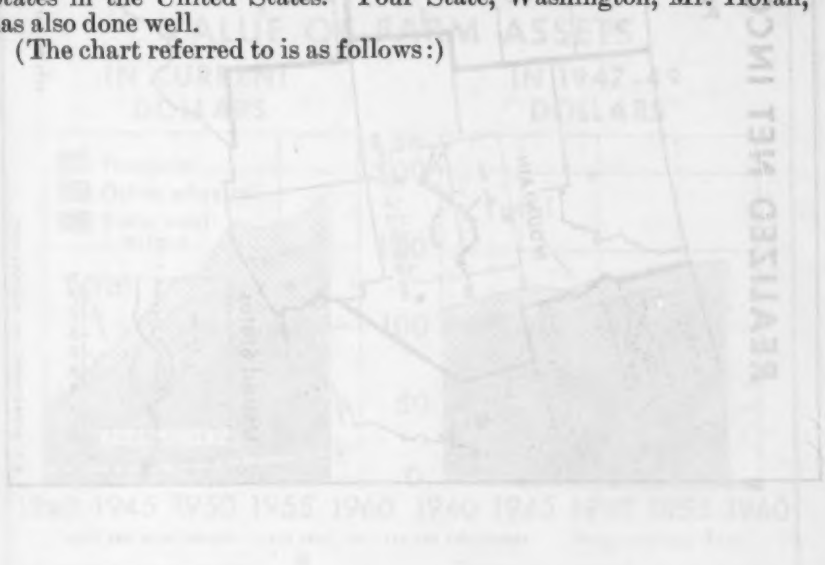
The income calculations for 1957 are only tentative estimates but I thought they would be of interest.

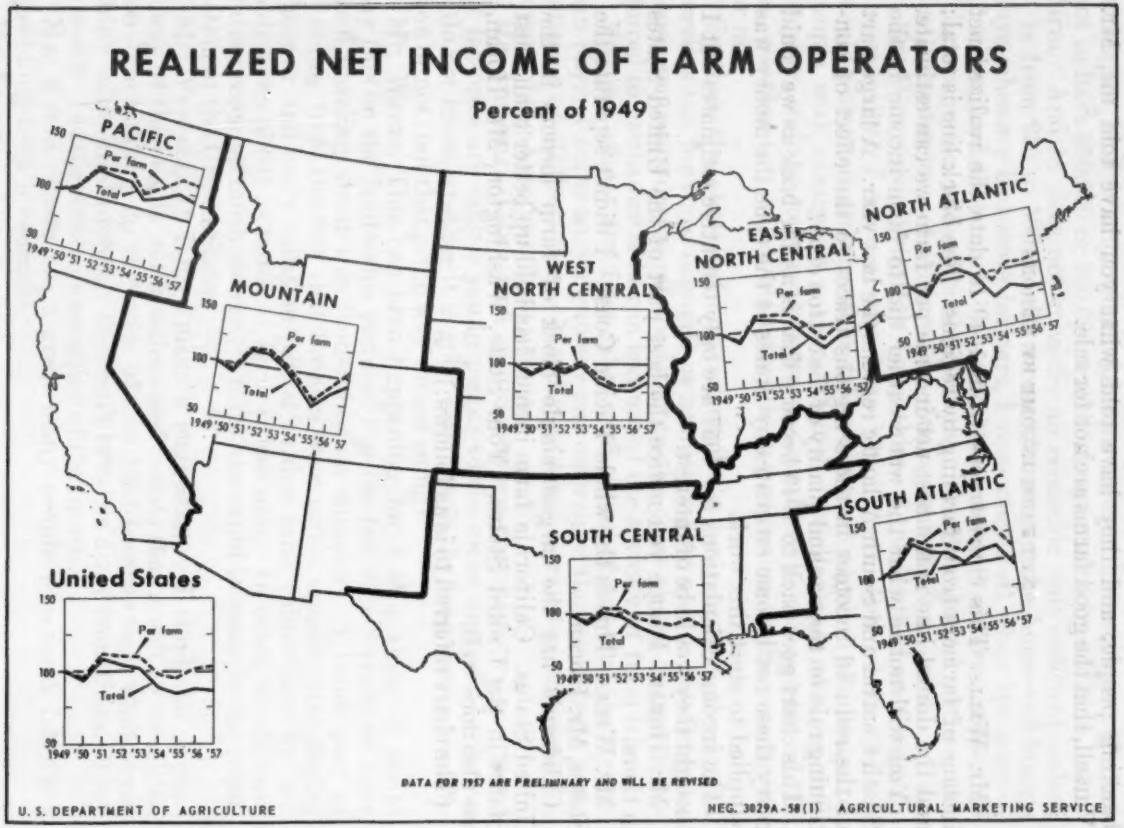
Mr. HORAN. I hope you notice the best part of the United States in there.

Mr. WELLS. This is the whole Pacific Coast. I didn't separate the States, Mr. Horan.

California has the largest single block of farm income in the United States. California farm income has held up better than most States in the United States. Your State, Washington, Mr. Horan, has also done well.

(The chart referred to is as follows:)




REALIZED NET INCOME OF FARM OPERATORS
Percent of 1949
PACIFIC
MOUNTAIN
WEST NORTH CENTRAL
EAST NORTH CENTRAL
NORTH ATLANTIC
SOUTH CENTRAL
SOUTH ATLANTIC
United States
Per farm
Total
150
100
50
1949 '50 '51 '52 '53 '54 '55 '56 '57
DATA FOR 1957 ARE PRELIMINARY AND WILL BE REVISED
U. S. DEPARTMENT OF AGRICULTURE
NEG. 3029A-58(1) AGRICULTURAL MARKETING SERVICE

REALIZED NET INCOME OF FARM OPERATORS

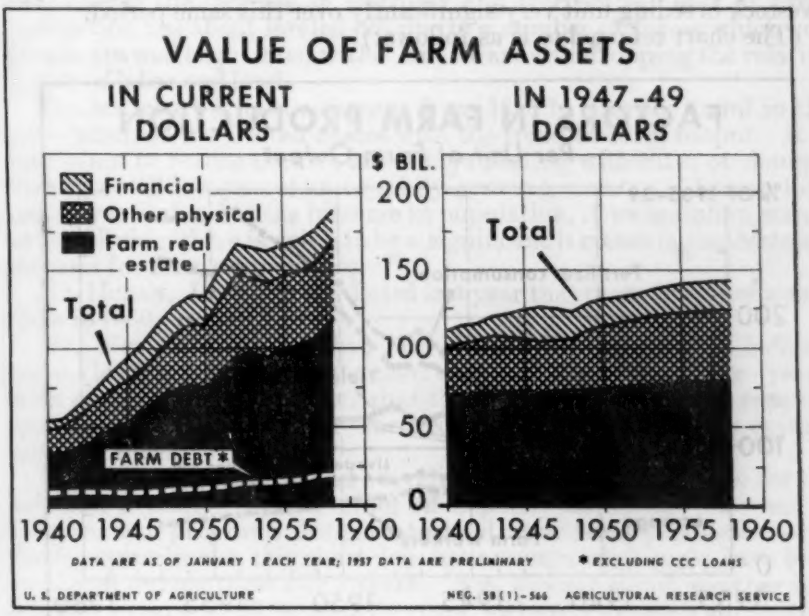
Regional differences in the changes in the realized net income of farm operators are illustrated by this chart. Realized net income of farm operators for the United States in 1957 was slightly lower than in 1956 and about 13 percent lower than in 1949. All regions except the Pacific were lower in 1957 than 1949 with the largest decline, 28 percent, occurring in the South Central region. The Pacific region was nearly one-fifth higher. On a per farm basis, 1957 figures were higher for all regions except the West North Central and the South Central. In the Pacific region, the per farm figure was 34 percent higher than 1945.

VALUE OF FARM ASSETS

Mr. WELLS. This next chart simply shows the value of farm assets both in current dollars and deflated to 1947–49 dollars—in other words the total value of the farm plant. The black, heavy base portion is land; the heavy, crosshatched part is livestock, stocks of crops, machinery; and the light crosshatched part represents the financial assets of farmers.

I show on the first, or current dollars half of the chart a white dotted line for farm debt. I don't show it on the second half because I don't quite know how to express the burden of farm debt against a deflated value of farm property. Certainly for the farmer who expects to live on his farm and not to sell it, present farm prices and income make the burden of the debt heavier than the same debt would have been in 1947–49. On the other hand, with a person who wants to sell, the rise in land values makes the burden of debt considerably lighter.

(The chart referred to is as follows:)



VALUE OF FARM ASSETS

A rise in the value of farm real estate was again the major factor in the increase in value of the total assets of agriculture from $177.1 billion on January 1, 1957, to $188.3 billion (preliminary estimates) on January 1, 1958. The total assets as of January 1, 1958, included real estate, $118 billion, up 7.8 percent from a year earlier; nonreal estate $51.5 billion, up 5.3 percent; and financial assets, $18.8, up one-half of 1 percent. The increase in assets during 1957 was accompanied by an increase of 4.5 percent in farm debt, excluding loans held and guaranteed by the CCC. Farm real estate debt accounted for almost all of the increase.

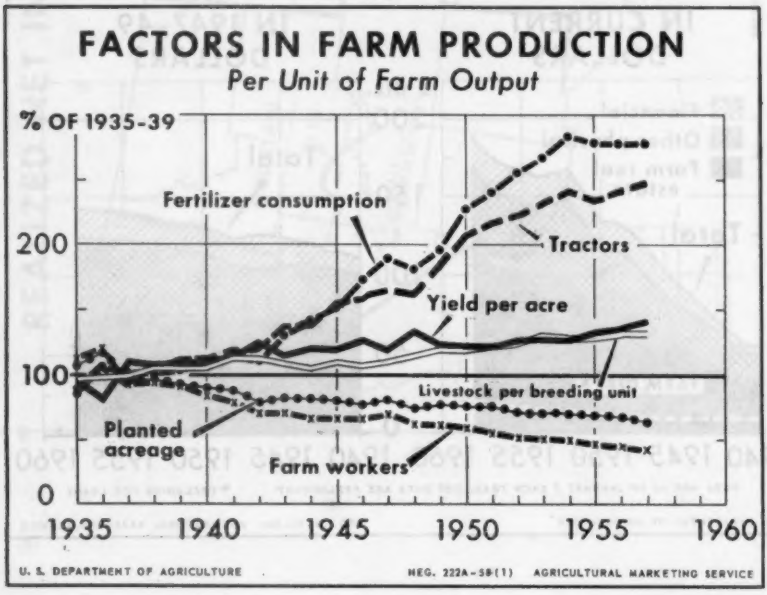
SOME LONG-TERM TRENDS

Mr. WELLS. The last two charts, gentlemen, deal with some long-term trends in agriculture.

This is the Factors in Farm Production chart I have shown you before. Some of the main factors relating to farm production are expressed per unit of farm output. The basic data comes, of course, from the Farm Economics Division of the Agricultural Research Service.

You will notice from 1935 to date the steady decline in labor, farm labor, per unit of farm output as well as the steady decline in crop acreage planted per unit of farm output. Offsetting these decreases in labor and land you will notice the steady increase in fertilizer consumption per unit of farm output up to 1954 and the steady increase in tractors. I have used fertilizer and tractors to measure chemical, biological, and mechanical contributions to farm output. Farmers have substituted fertilizers, sprays, biological methods of farming, mechanization, for land and labor and completely changed the complexion of our farm picture and our farm expenditure pattern in so doing. Also, they have raised the yield per acre and the yield per livestock breeding unit very significantly over this same period.

(The chart referred to is as follows:)



FACTORS IN FARM PRODUCTION

Farmers are increasingly dependent upon machinery, fertilizer, and other items purchased from off the farm. In studying the above chart, attention is directed to (1) the 2 upper lines which are typical measures of the rapid uptrend in the use of machinery and such items as fertilizer per unit of farm production since the beginning of World War II; (2) the 2 lower lines which measure the steady downward trend in the use of farm labor and land per unit of farm production; and (3) the 2 centerlines which indicate the increase in crop yields per acre and outturn of livestock products per breeding unit.

Mr. WHITTEN. I have become more and more convinced that a considerable part of the very poor net income position of the American farmer comes from efforts to control his production by acreage. Of itself it requires an investment in more and more total land, so that percentagewise he can have enough acres in a crop to have an economic operation. The more land he has to buy in order to use enough to fit his machinery, the bigger his investment. Then, having only a limited number of acres, it places upon him the burden of buying all the fertilizers. Even if it gets up to where the fertilizers cost 90 percent of the expected return he has to do it for the 10-percent margin. The same thing is true with insecticides and everything else.

Now, it is my belief that if we could work out a system where he was allowed so many bushels, bales, or pounds, then he could use his land and substitute labor and land, to a degree, for what he now puts out in cash for each year. It would lower his cost and, if his receipts remained the same, his net position would be greatly increased.

I find more people who are thinking along that line. And in my judgment it is going to have to be explored further.

Mr. WELLS. In that connection it is interesting to note that for the last 4 years the increase in fertilizer and tractors per unit of farm production has about leveled off, due to a number of forces which you people are well acquainted with. But we are still dropping the relative inputs of labor and land.

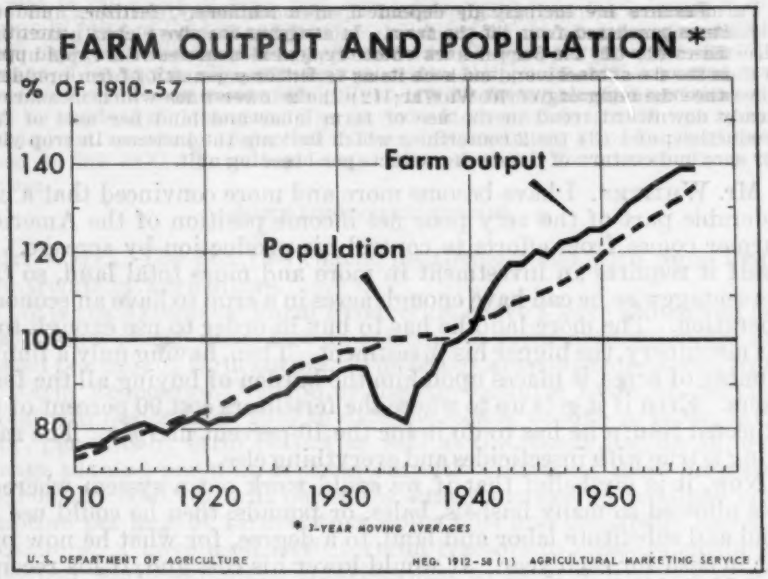
The last chart I have compares from 1910 to date the trend in the population of the United States with the trend in farm output. It is important to realize that we are always dealing with rates of change; that this still is a young and rapidly growing country. As you look even 5 years ahead at the increase in population, if we maintain standards of living, there is going to be a significant increase in the domestic demand for farm commodities.

Mr. HORAN. Dr. Shaw predicted last year that those two lines would cross in 1960.

Mr. WELLS. I will say this, Mr. Horan: This chart does indicate quite clearly, if farm production were stabilized for a few years, with our growing population, that the balance between farm supplies and the demand for farm products could alter or improve in a reasonably short time.

Now, it is true we have had a leveling off of farm production for the last 2 or 3 years. That leveling off is partly the result, however, of Government programs designed to hold back farm production—the farm-output line on this chart does not measure what could have been produced during these 2 or 3 years. But, looking ahead, whether it is 3 years, 5 years, 15, 20, or 25 or 35 years, we have a growing agriculture ahead of us.

(The chart referred to is as follows:)



FARM OUTPUT AND POPULATION

Farm output in 1957 at 13 percent above the 1947–49 average equaled the record high level first attained in 1956. An increase of 25 percent in livestock output has been the major factor in the increase in total farm output since 1948. Crop output at 106 percent of 1947–49 was equal to the record high first set in 1948 and reached again in 1956. The United States population is continuing the fast rise begun after World War II and since 1945, has increased at about the same rate as farm output.

Mr. WHITTEN. Mr. Wells has given us a very fine presentation of the information. He presented it very well. And his figures show a lot of preparation.

I would like to have inserted in the record various investigator's reports of activities of the Department which were prepared during the past recess. These reports do not attempt to draw any conclusions. They are factual in nature. And I believe it would be informative to have them included in the record as a part of volume I.

(NOTE.—The reports referred to may be found beginning on p. 167.)

Are there any further questions?

Mr. NATCHER. Agriculture has made tremendous gains in its ability to produce as a result partly of research, and that it was now imperative that we find markets for the same means, if possible.

What does your research show as far as future markets are concerned? Are we improving? Are we increasing our ability to secure better markets and more markets for our agricultural commodities?

Mr. WELLS. I think so, Mr. Natcher.

Within the United States itself we have had a significant improvement within the last 20 years in the diet of the average American consumer. A great many people tend to simply accept this and probably forget it. But I am sure if the American farmers were selling the same per capita amounts of meat and other things that he was selling

in the 1920's or 1930's, you would realize we have a significant increase in food consumption per capita in the United States. A large part of this was due to the fact that in 1930 we had large blocks of unemployment, and in recent years unemployment has been small. A large part is due to the fact that as people's income increase, they prefer a diet relatively high in livestock products.

However, farm groups, processors, and the wholesale and retail trade are becoming increasingly interested in merchandising and market development. For example, both cotton and wool have been faced with stiff competition from synthetics. In the industrial field this is especially difficult. In the clothing field, cotton has been fighting back quite successfully for the last 10 years or so, and wool producers are beginning to at least recognize the problem and try to develop a program which will help.

In terms of total consumer expenditures, I pointed out earlier that American consumers now spend about 25 percent of their income for food. And this surprises most analysts, because they would have thought that with the kind of incomes we now have that the percent spent for food would be down. I think we have done more than most people realize. But at the same time our farm productive capacity has been and is very substantial.

There was a time following the end of World War II when we were feeding most of the world. And when the world food prices eased and the flood of production continued, we found ourselves in a rather difficult position, one that most of us think is going to continue for several years, but one that I think is by no means hopeless. We are a young Nation. Our population is still growing. I have tried all the way through my presentation to indicate that we have been interested in the quality of the American diet and the kind of clothes you wear, rather than in mere subsistence.

Mr. NATCHER. Thank you very much.

Mr. WHITTEN. Mr. Vursell.

Mr. VURSELL. One last question. I will make the question short. And you need not make the answer too long. I don't think you would have to.

What is the outlook for agriculture for 1958?

Mr. WELLS. About the same as for 1957, Mr. Vursell. Somewhat better for beef cattle and a few other commodities. Somewhat poorer for one or two items; but price-wise and income-wise, I would say not much different.

Mr. VURSELL. Thank you.

(Discussion off the record.)

Mr. WHITTEN. We wish to thank you again, Mr. Wells, for your presentation as well as this visit we have had on things that are not directly related to the report.

We will see you later in the hearings when you come up on the other items.

FRIDAY, FEBRUARY 7, 1958.

GENERAL ECONOMIC OUTLOOK

WITNESS

CARL H. WILKEN, ECONOMIC ANALYST, RAW MATERIALS NATIONAL COUNCIL

Mr. WHITTEN. Gentlemen, the committee will come to order.

We have asked Mr. Carl Wilken to appear before the committee this morning. Mr. Wilken is an outstanding economist who has appeared before this committee and many other congressional committees back through the years. I was particularly anxious to have him come before this committee, not only because of what I can see from sitting on this committee, but also from sitting on the National Defense Subcommittee where quite definitely in my judgment we are giving attention to pump priming through defense spending. It is recognized that we are in the midst of a recession, as it is frequently called, which I am fearful might go further than that.

FARM INCOME AND NATIONAL INCOME

In years past Mr. Wilken has pointed out to us that the national income is quite definitely tied to farm income. As I recall it, he has pointed out with facts and figures that every depression we have had has led off with a drop in farm income.

I would like to preface this hearing by reading from our report of last year at page 3 thereof:

> Four years ago net farm income was $14.3 billion, or about 5 percent of the national income of $281.8 billion. Four years ago the farmer recevied 47 cents of the consumer's food dollar, At that time the farmer received an average of 82½ cents per hour for his labor. Conditions then were considered to be serious for the farmer and it was generally agreed that something had to be done to improve his economic position.
>
> For 4 years now the Department of Agriculture has been trying to improve that situation. During this period the Department has insisted that the primary cure for the farmer's plight is to (1) reduce support prices, (2) reduce acreage, (3) increase funds for research and extension and (4) undertake a rural development program. Then last year, after almost 4 years of following the Department's policies, as the American people approached an election with farm income down, the Department recommended and the Congress passed the Soil Bank to put up to $1.2 billion from the Treasury in the farmers' hands.
>
> During the last 4 years the Department has tried to carry out its policies.
>
> It has reduced price supports an average of 20 percent.
>
> It has reduced acreage for cotton by 38 percent, for rice by 22 percent, for wheat and tobacco by 23 percent.
>
> In 1956, after that 4 years of effort, farm income was down to $11.8 billion, which includes direct relief payments from the soil bank funds. This is a drop of $2.5 billion, or 17.5 percent, since 1952. Comparatively, the personal income of other segments of the American economy has increased from $271.8 billion in 1952 to $306 billion in 1956, an increase of 12.5 percent.

I mention that to show that the record, at least to this point, does show a falling off in farm income which, according to the testimony we have had in years past, has always preceded a falloff in income in other segments of the economy and has led to all of the depressions we have had.

The members of this subcommittee have just returned from a meeting of the full Committee on Appropriations where we had a sup-

plemental request for $25 million for veterans' unemployment compensation, over and above the amount which the Bureau of the Budget thought would be needed when this matter was before the Congress last year.

Included in the bill which we have just reported out was $18.4 million extra money as a supplemental for unemployment compensation for Federal employees.

Pending before the committee is a request for $33 million extra money above what was thought necessary last year by the administration for general unemployment compensation.

I now turn to an article appearing in today's Washington Post by Mr. J. A. Livingston, who is an outstanding writer in connection with the business outlook. It is entitled "When You're Jobless, That's a Depression":

> Undoubtedly you recall the grim definition that wheezed around during the 1953–54 business recession: "A readjustment is when a friend of yours loses his job. A recession is when your brother gets laid off. A depression is when you, yourself, start knocking on personnel office doors."

Again, my purpose here is to have you, Mr. Wilken, tell us what the situation is as you see it, and to give us the benefit of your counsel and advice based upon the studies which I know you have made through the years.

May I say that I am seriously disturbed because we have had this fall in farm income. It has reached disastrous proportions in recent years, and, in my judgment, it is getting worse and worse. It also appears to me that the farm situation is beginning to be felt by the rest of the economy. Unless we do something to strengthen the farm income we may be on that road that this Nation has been on in years past when we really did get into a real depression.

With that background, I would appreciate your giving us the benefit of your counsel and advice, and such facts and figures as you may have.

Mr. MARSHALL. Mr. Chairman, might I add just one point to the statement you have made in connection with unemployment compensation. I would like to point out that while the unemployment compensation reports show the increase of claims, it by no means gives the picture insofar as unemployment is concerned, because people who have used up their claims are not accounted for in any of those figures.

In the State of Minnesota, from which I come, the unemployment compensation claims are 30 percent higher than they were a year ago, and the number of people who have used up the unemployment compensation has not been determined, nor has the effect of the overtime income which they formerly had, and which is certainly a contributing factor to the income of people, been taken into account.

Mr. WHITTEN. I thank the gentleman from Minnesota.

May I read further from this article by Mr. Livingston, and I quote:

> That wheeze—

referring to a statement about the depression—

> is being revived. America has 4 million personal depressions walking around.

That does not take into consideration farmers who are not eligible for unemployment compensation.

Then, quoting him further, he says:

They're an expert guess by Secretary of Labor James P. Mitchell on the number of unemployed; they're close to the fact. The last official figure was for December, when there were 3.4 million depressions. Fifty-two out of every thousand persons in the labor force were jobless. And the percentage for this month and next will be higher.

Mr. Wilken, you have been trying to tell this committee, and this committee has been trying to tell the Congress, and some people of the Congress have been trying to tell the country about depressed farm prices and depressed farm income. You have been trying to tell us that it was going to lead to unemployment in the Nation and that New York was going to feel it eventually. It looks to me like it is being felt now.

We want to have you give us the benefit of your counsel and advice again, Mr. Wilken.

General Statement

Mr. Wilken. Mr. Chairman and members of the committee, I am glad to have this opportunity to meet with the committee again.

Mr. Chairman, I have a prepared statement which I would like to submit for the record, and then proceed orally, if it is agreeable with the committee.

Mr. Whitten. Without objection, the statement will be made a part of the record at this point.

(The statement referred to follows:)

Statement Before the Subcommittee on Agricultural Policy of the Joint Economic Committee by Carl H. Wilken, Economic Analyst, Raw Materials National Council

Mr. Chairman, members of the committee, my name is Carl H. Wilken, of Washington, D. C. Since January 1937 I have devoted almost all of my time to a study of our economy under the title of economic analyst for the Raw Materials National Council, which was incorporated in March 1936, at Sioux City, Iowa.

In the past 20 years I have appeared before various congressional committees analyzing the specific operation of our economy, with especial reference to raw-material production and income as the primary source of earned income and markets for the sale of manufactured products.

Based on this experience, I would say that the key factor for our economic confusion is the failure of economists for industry and government to recognize the simple dogmatic fact that our economy starts with raw-material production as a foundation for jobs and earned income.

In the period 1951–55 I was employed by the Joint Committee on Defense and had the opportunity to observe very carefully the economic factors which have brought about the most serious dislocation in history between raw-material production and the income of rural America and the balance of our economy. This dislocation will force the United States into economic collapse unless corrected by a complete reversal of current policies toward the production of new wealth from our farms and mines.

We Cannot Afford Cheap Raw Materials

My purpose in presenting this statement to the committee is to point up specifically that society cannot underpay the producer of raw materials without suffering a direct economic loss in proportion. Further, that parity prices for farm production are not and cannot be subsidies. Farm prices below parity really mean that society is asking rural America to subsidize the consumers' food costs and other items processed from farm products. When farm prices are below parity society is forced into a position of either accepting a loss in income or mortgaging its future income by excessive increases in the total debt, public and private, against the income of the United States.

ANNUAL LOSS OF $50 BILLION

Strange as it may seem, the United States at the present time is losing $50 billion of income, on an annual basis, because of our failure to maintain farm prices at parity with the 1946–50 or the 1947–49 period as 100, the last normal period of which approximates a peacetime economy.

To prove this loss of $50 billion, I am going to use the statistical material published monthly by the Economic Committee under the title "Economic Indicators" and the annual publications known as the President's economic report.

Our economy is large in scope but there is nothing which cannot be accurately analyzed with the use of the same arithmetic used by a public accountant in preparing an audit for a corporation regardless of its size. The record is available to provide actuarial tables with which to measure future production and income and to approximately determine the share of each segment in the whole.

PAST RECORD

Using the period 1929–53, a period upset by depression and war, the record proves that the dollar value of our farm production was approximately 70 percent of all raw materials used in the economy and the balance, or 30 percent, was primarily mineral raw materials—coal, petroleum, metals, etc.

In the 5-year period, 1946–50, in our return to a peacetime economy, after 12 years of depression and a costly war, the ratio which existed as a 25-year average was resumed. At this point we were producing $32.2 billion of gross value of farm products and $12.8 billion mineral production. During the 5-year period, 1946–50, we averaged $211 billion of national income.

During the 25-year period, 1929–53, we approximated $5 of national income for each $1 of raw materials utilized. In this period agriculture, used alone, had a ratio in which the gross value of our farm production approximated roughly one-seventh of the national income. This was in almost direct accord with the capital investment in agriculture, approximately one-seventh of the total capital worth of the United States.

A further study of the record will reveal that in the 25-year period, 1929–53, approximately 80 percent of the national income was spent for quickly and almost totally consumed goods and services. The balance of 20 percent, after spending for the primary needs, became savings and profits. The savings and profits were in direct ratio to the newly created dollars of new wealth in the form of raw materials.

The 20 percent of the national income represented by savings and profits was utilized to buy consumer capital goods such as cars, household equipment, etc., and used for investment in new plants, producers' equipment, and construction of homes, roads, schools, etc.

The important fact which has been missed by our economists is that if and when raw material prices drop below parity the volume of newly created dollars is not sufficient to create the needed primary markets for our total output and the underpayment translates in direct ratio into losses in national income and investment capital. If we attempt to operate the economy at full capacity with raw material prices below parity we will be forced to borrow from future income in an expansion of the total debt, public or private or a combination of both. The most important factor in our economy is the five times average turn of the newly created income from raw material production.

PROOF IN THE RECORD

The proof of the above conclusions is found in the record, and I will give the committee a detailed record of what has taken place in the period 1951–57.

In 1951 the raw material production approximated $54 billion or a generating force to create on an earned basis $270 billion of national income. Our income in 1951 was $277 billion.

Congress in September 1950, passed the Defense Act which included a section for an Office of Price Stabilization to prevent inflation. This part of the act was used starting in March 1951. The administrators of the act established price ceilings on the basis of an 85 percent of normal operating margins for industry and with no provisions to hold back wages in ratio to delivered efficiency.

Price ceilings, too low a level of operating margins, and increased wages resulted in a sharp downward pressure on farm prices of about 20 percent, thus

starting the dislocation which still exists and has been permitted to increase since 1951.

With a cutback of 20 percent in farm prices and income a proportionate loss of buying power for consumer goods took place in rural America. Normally, rural America as a result of the raw material income and turnover represents about one-half the market for goods in the United States. Therefore, a 20 percent drop in farm prices forced a loss in consumer goods sales on a national basis of approximately 10 percent. This drop seems to have passed unnoticed by businessmen and their economists.

PROOF

Here is the proof from the record. In the 5-year period, 1946–50, consumer goods sales as recorded by the Economic Indicators averaged 55.3 percent of the national income. In the second quarter of 1957, with a national income rate of $358.1 billion (Economic Indicators) November 1957, consumer goods sales totaled $174.1 billion or 48.6 percent of the national income. With farm prices and other raw materials in balance a normal of 55.3 percent of national income in consumer goods sales would have totaled $198 billion or $24 billion more than was actually recorded. Stated bluntly, the farm price dislocation in the second quarter of 1957 was forcing industry and the Nation to lose $24 billion of consumer goods sales.

The question naturally arises, if this is true, how did we keep our economy operating at a level that appeared to represent prosperity? The answer is debt. Expansion in the total debt in the 3 years, 1951–53, averaged approximately $39 billion.

Going back to 1925–29 the total debt expanded in a ratio of about 9 percent of the national income per year. For example, our total expanded approximately 9 percent of $82 billion, the average national income in that period. The depression following 1929 indicates that this ratio may have been excessive. But, applying it to the rate in 1951–53 it means that the debt increase of $39 billion was equivalent to spending the profit from $430 billion of annual income even though we averaged less than $300 billion.

The important factor to remember is that this excessive increase in debt, although it offset the loss of markets resulting from low farm prices, did not bring about a recovery of farm prices.

CHANGE OF ADMINISTRATION

In 1953 a new administration took over and proceeded to first, start a move to reduce farm price supports thus setting the stage to reduce farm prices and increase the dislocation, and second, to cut back spending from a level of $39 billion of debt expansion in 1951–53 to a level of $24.5 billion in 1954. The result was a recession or a cutback in total output in our economy. Our production index which had reached 137 percent of 1947–49 as 100 in July 1953 dropped to 124 percent in 1954, a cutback representing approximately $30 billion in national income. In other words forced a loss of $30 billion.

Instead of correcting the farm price situation, thus restoring the primary earned income, the Nation was embarked on a vast spending program. In 1955 we added $61 billion to the total debt. Most of this was an increase at the private level by increasing, for example, the installment debt on cars about $4 billion and easy credit for homebuilding, tax amortized funds for plant expansion, etc.

This rate of spending, using the 1925–29 ratio, was equivalent to the use of profits from $677 billion of national income even though our income in 1954 was only $299 billion. The spending of this money obtained by a mortgage against future income again offset the loss of income from low farm prices and our economy expanded its production to an index of 147 percent of 1947–49 levels in December 1956.

But in 1956 an economy minded Congress, plus the fact that earned profits from an earned income of $270 billion, and in turn loanable funds, were not sufficient to support the rate of investment capital, and our expansion in the total debt dropped back to $30 billion. This again has forced a cutback in total output and our production index in November 1957 dropped to 139 percent of 1947–49 as 100 or about 1 percent above the rate in July 1953.

Our current rate of national income on the basis of earned income from new wealth production would approximate $260 billion or $98 billion below the rate of $358 billion recorded in the second quarter of 1957.

Unless farm prices are restored to parity along with other raw materials the present rate of production and income cannot be maintained except through further additions of excessive debt or mortgage against future income.

A point that needs to be driven home is that the Nation as a whole sets the stage for losing $5 of earned national income and $1 of earned investment capital for every dollar that raw material producers are paid below parity levels.

There is no way in which to offset this loss other than placing a mortgage against the future income at private or public levels or both. It is impossible for either political party to operate a sound and solvent economy without an average of 100 percent of parity at the market place for raw materials.

SURPLUS OF FARM PRODUCTS

Throughout the land most economists are blaming the low farm prices on overproduction. The real reason is underusage of farm products directly traceable to low farm prices. The current loss in ratio of consumer goods sales to national income, which I have pointed out amounted to $24 billion in the second quarter of 1957, was mostly a loss of nondurable goods sales, most of which are processed from farm products. Our farm production to properly support the current level of productive capacity should be about 125 percent of 1947–49 as 100 instead of 106 percent and should be moving into the market place at parity with 1947–49 price relationships.

AGRICULTURE UNDERPAID $20 BILLION IN 1957

The price dislocation is shortchanging the agricultural industry and rural America about $20 billion. To this extent rural America is being exploited and forced to subsidize the rest of the Nation. Instead of prosperity we are headed for national bankruptcy by using income borrowed from the expected income of the future.

The record reveals that for 47 years our annual production increased at an average rate of 4 percent per year. Using the long-term average of 4 percent per year as the rate of expansion from July 1953 to date, our production index in November 1957 should have been 159 percent of 1947–49 as 100. At current prices this production, which could be sold if farm prices and other raw materials were at 1947–49 parity, would create a national income of $406 billion.

With raw material prices at parity, this rate of income would be on an earned basis. Our current rate of production, 139 percent of 1947–49, is creating a national income rate of $354 billion, of which about $260 billion is being earned through raw material production at the current price level.

Even the rate of $354 billion of national income, part of which is being created by debt, is $52 billion below the income we could and should have had with farm prices and other raw materials at parity and without an excessive debt increase.

MORE CREDIT

It is very doubtful that credit expansion will solve the present crisis. Our farm operations and small business, representing about 9 million capital operations, represent roughly one-half of our economy directly and indirectly.

The combined income of these two groups since 1946–50 has advanced approximately 18 percent while payrolls and income from capital in the form of interest, rentals, and capital profits have advanced 80 percent. Theoretically, the increase of 80 percent in the income of 55 million workers and capital earnings should have increased the income of farm operators and small business in direct proportion. The facts prove that raw material prices are about 85 percent of 1947–49 averages.

Industrial payrolls and industry have already overexpanded and have borrowed up to a safe limit of their capacity based on current wages and business profits. The low level of income for farm operators and small business is not a good base for credit extension. It will not be possible to expand this segment of our economy without a restoration of farm income and the consumer goods sales now being lost, much of which is by small businesses in rural areas.

The loss of $52 billion of income resulting from low farm prices also represents about that amount of loss in consumer goods sales. For example, a 55.3

percent rate of $406 billion of income, which we could have with farm prices at parity, would result in consumer goods sales amounting to $224 billion as compared to a rate of $174 billion in the second quarter of 1957.

REAL REASON FOR FARM SURPLUS

The so-called farm surplus is due entirely to underconsumption at home and abroad as the result of low farm prices. American agriculture is being underpaid approximately $20 billion. We produce about 10 percent of the world's production and the underpayment on a world basis is approximately $200 billion. The loss of this primary income of $200 billion on a world basis is at the root of the economic problem. Over 1 billion people in the world have an income of about $100 per year and their income cannot be raised without a proper return for raw material production. They are underfed and underclothed. They represent the market that can exist with a restoration of farm prices on a world basis to the American level. The United States, with only 6 percent of the world's population, cannot subsidize a low food cost at home and abroad with credit.

Parity prices for farm products would make it possible for us to expand our farm production instead of rather foolishly attempting to reduce production and thus setting the stage for robbing ourselves and the Nation of newly earned raw-material income to a greater extent than we are now doing.

In 1929–33 we had 40 million acres of cotton and our production averaged approximately 13 million bales of which we exported 8 million bales. Our cotton consumption in 1929 was approximately 7 million bales and dropped to about 4.5 million in 1933. With the recovery of 1929 prices in 1942 and with price supports our cotton consumption increased to an average of 9 million bales. Our exports through a realistic trade program should have expanded to about 12 million bales to maintain our historic ratio. But, instead of that, our exports of cotton in 1939–56 averaged only 3 million bales.

Cotton has been cut to less than 20 million acres and 20,000 acres have gone into other crops.

In the case of wheat, the record reveals that in 1947–49 we produced an average of 1,200,000,000 bushels per year. Our carryover in 1952 was approximately 256 million bushels. In the 4 years 1953–56, we produced 200 million bushels less wheat per year than we did in 1947–49. This cutback in wheat production diverted another 10 million acres to other crops. In spite of the reduction in production of 200 million bushels of wheat per year the carryover of wheat was increased to over 1 billion bushels.

The 30 million acres taken from wheat and cotton were planted in other feed crops, especially soybeans. Soybeans, in turn, expanded our production of fats and oils over 2 billion pounds. This in turn forced down the price of cottonseed oil, lard, tallow, corn oil and butterfat. As a result, the entire agricultural economy has been thrown into confusion.

WHY DID WE LOSE THE MARKET

The important factor is why did we lose the export market? The answer lies in the loss of world income of approximately $180 billion from farm production as world farm prices followed the drop in farm prices in the United States.

Our farm production at the present time is about 106 percent of 1947–49 as 100 and we tre trying to operate an economy with a physical output of 159 percent of 1947–49.

Arithmetic is a stern dictator and unless farm prices and the price of other raw materials are brought back to the 1947–49 parity level our economy will collapse because of a lack of earned markets to utilize our production.

Further extensions of credit will merely add to the total debt and will not restore the price of raw materials. With an intelligent use of about $3 billion per year and a realistic trade policy under which we will pay comparable prices for imports, we can lead the world into a new era with farm prices and other raw materials at the American parity level. Then the world can earn the income to use the production of the United States and the world. In fact, we could practically force the world to accept a program to stabilize 25 leading raw materials, including gold and silver and monetary metals, at the American parity level.

In exchange for this expenditure we could recover the loss of about $50 billion in national income and consumer sales volume which we are blissfully enduring today as we charge the losses against future income.

The depression from 1930 to 1941 forced the United States to lose over $500 billion of national income due entirely to the losses following low raw material prices. A lend-spend policy for WPA, etc., in the thirties did not restore farm prices. Since 1950 we have expanded the total debt against the United States $244 billion. This did not maintain farm prices at parity.

A free market in 1929 with the heavy spending of borrowed funds for economic expansion in 1925–29 did not prevent farm prices from collapsing.

Farm production is an annual cycle of crop production and at harvest time a 100 percent crop is met by 1 day of immediate demand. If we wish to have free markets for farm products then we must also expect periodic depressions to wipe out the savings and force a return to poverty. Free markets in all of world history have never given agriculture economic equality on a sustained basis. They never will.

If support prices are to be used 90 percent is the minimum if we are to gain the goal of parity on an average basis. To reduce price supports below 90 percent will force the Nation to lose income and stabilize the earned income of our economy at the lower level. Legislation to administer a firm 90 percent price support program is still the law of the land if the Secretary of Agriculture decides to use it. The legislation worked successfully for 11 years, 1942–52. It can work in the future. If the public realized the stake we all have in a proper level of farm prices, there would be no more objection to parity prices for agriculture than there is to a fair wage for the worker and a fair operating margin for industry. All of these are a must if we wish to have an efficient and solvent economy.

The fundamental law of economics is found in the Bible, namely, "Every laborer is worthy of his hire." This means that agricultural production must be priced at parity if we are to enjoy the Lord's blessings. Pious statements of a spiritual revival and a program to support farm prices at 75 percent of parity ignore this basic law.

We all know that any businessman who trys to operate a business and sell his product for 75 percent of the cost of doing business will end up in the bankruptcy court.

For the same reason, if we try to operate the United States with 75 percent of parity for farm products and other raw materials, the United States will lead capitalism into an economic collapse throughout the world. If this is permitted to happen, the loss of prestige suffered by the United States with the launching of sputnik will be multiplied many times.

December 1957.

Mr. WILKEN. Mr. Chairman, I have spent 20 years in research which has consisted of studying the record of the United States to find out how it operates. The research work was done under the trademark of the Raw Materials National Council which was incorporated in Sioux City, Iowa, in March 1936.

I have been the Raw Materials National Council for the simple reason that factual research is really a 1-man job, or at the most, 2 men. Never do factual research with a mass group.

I am glad to be with this committee, and I have always had a very friendly reception.

I want you to realize that the problem confronting us is not a political problem. It is a problem in arithmetic, and we have a dictator in this whole situation. That dictator is arithmetic.

The economy of the United States is not very complicated if we use facts and arithmetic. It becomes quite complicated and completely confusing if we try to operate it with theories that are not true and never have been, and never will be. That is our situation today.

A year ago I pointed out to you that the United States had been losing income from March 1951 when the farm prices broke. In that 6-year period all the losses of earned income had been covered up by an increase in the total debt, at the National, State, municipal, and private levels.

Now, the increase in the total debt today compared to 1950 has been $270 billion.

We have a very profitable economy in the United States, one of the most profitable the world has ever seen. We have a 20-percent operating profit. In other words, for every $5 of national income we have $1 of profit.

To meet the interest on this additional debt since 1950, $270 billion at 5 percent requires $13 billion of profit; in other words, $65 billion more income than we had before the debt was incurred.

Just a few days before the end of the year I prepared an audit of the record of the United States which is published by the Joint Economic Committee monthly under the title of "Economic Indicators," and on an annual basis under the title "The President's Economic Report to Congress."

LOSS BY UNITED STATES IN 1957

I made an audit of 1957 which is not really so complicated as it may seem. Then I filed a statement with the committee and pointed out that the United States in 1957 lost $50 billion as a result of the dislocation between farm prices and other raw materials, and the balance of our economy.

This is very important to the Appropriations Committee for the simple reason that involved in that loss of $50 billion was $12 billion of tax revenue which could and should have been available to pay for military equipment, schools, roads, and to reduce taxes, or to pay off some of the national debt.

Then, not wanting to be a prophet of doom and gloom, I pointed out to the committee that with intelligent use of about $3 billion this loss could be recovered, and our farm production expanded 15 percent, which would put the United States back on the basis of earning its income.

We are in the position as a nation today that a businessman would be if he tried to expand his production or his volume of business, and then sold his goods at 70 percent of what he ought to have to operate.

Whenever the United States tries to operate with a price level of approximately 70 percent of parity, taking into consideration other cost factors in the United States, it would produce 70 percent of its earned income, and the only possible way for it to continue to operate is to borrow enough money from the future to offset it.

Then I pointed out to the Joint Economic Committee that this surplus that we are fighting is not the result of overproduction, nor is it the result of price supports. It is due entirely and completely to the loss of farm consumption and usage of farm products as a result of a drop in farm prices which cut off the income of rural America, and at the same time cut off the income of all agricultural areas in the rest of the world.

I can prove that very simply from the records.

Then I told the committee that I would be willing to go before any committee of Congress or go before any public group, and prove this loss of $50 billion, and point out specifically the problem that we have.

We are losing this $50 billion, and if Congress at this session does not take action to bring about a price balance between raw materials

and national income that we need and, if your raw materials income is permitted to go at its present level, we will lose another $50 billion in 1958.

If we are going to continue and operate and utilize our payroll and our productive equipment which has been built up in the last 7 years with capital investment, we will have to borrow some $55 billion of income from the future either through an increase in the national debt, State debt, municipal debt, or the private debt. Frankly, gentlemen, I do not believe that you can propagandize the American people enough to borrow that much money from the future to operate in 1958.

AUDIT OF 1957 AS COMPARED TO 1946–50

I have prepared an audit of 1957 as compared to 1946–50, which I am going to use to point out specifically what the problem is and why we are in this situation.

I do not want you to get excited because it is not a voluminous document. It is all on one page.

This little one-page document is the case of the truth being stranger than fiction, and as we go through it, it will point out some things that are going to be hard for you to believe.

Before going into it, I want to make one more statement: The President has asked Congress for an appropriation of approximately $74 billion. How much money is $74 billion? Well, just as a comparative figure, it is more than the entire income of the United States in 1939, 18 years ago. I am bringing that out to illustrate the terrific pace at which we have been traveling.

If you will take the tabulation at the top of the page, you have the picture as it existed in the average period of 1946–50. Now, I want you to forget all the other factors in the economy and just pay attention to those six items.

What happens to those six items determines the welfare of the economy of the United States. This setup here is exactly the same as is published by the Joint Economic Committee. In other words, it is not a particular method that I have of setting it up.

In a publication which I published a year ago I pointed out the possibility of setting up an actuarial table which could be used to project the income of the United States 40 years in advance, or 40 years into the past, in any price and production line, and that it could be used to detect any dislocation. That is what we are going to use it for today.

You will notice, first of all, that we averaged $211 billion in income in 1946–50, and payrolls were $136.5 billion; farm net income was $14.2 billion; small business, $21.4 billion; rentals, $7.2 billion; interest, $4.5 billion; and corporate profit, $26.9 billion.

Consumer sales were $116.8 billion; farm production, $32.2 billion; and other raw materials, $12.8 billion.

First of all, I want to prove to the satisfaction of the committee that projecting from this table forward is going to be quite accurate, and to do that, I am going to use the record of 1929, 20 years prior to this table of experience, and project two items from it to illustrate.

In 1929 the national income was $87.8 billion. The record shows that in 1946–50 it was $211 billion. So, dividing $87.8 billion into $211 billion, we know that the income increased 140 percent.

In other words, the income in 1946–50 was 240 percent of what it was in 1929. Now, in 1929 the net income of agriculture was $6 billion. If you multiply that by 240 percent, that is the increase of the national income, the farmers in 1946–50 should have averaged $14.4 billion.

Your actual figure was $14.2 billion.

Let us take the other important segment, small business. In 1929 the income of small business was $8.6 billion. If you multiply that by 240 percent, it gives a $20.64 billion payroll as compared to $21.4 billion.

You see how close it hits, and you are just using 1 year as compared to 5, and 1 year is not always quite so accurate.

Let us take farm production of $32.2 billion. The gross farm production in 1929 was $13 billion. Multiply that by 240 and you get $31.2 billion as compared to the actual average of $32.2 billion.

When one realizes that in 1946–50 the farm income was a little above parity, you can get the picture of the accuracy.

I am going to use that same thing to project up to 1957. In order to get away from the thing as a farm problem, I am going to use the payroll, and the reason I am going to use it is that the payroll in 1946–50, as you will remember, was 64.7 percent of national income. As a check as to the accuracy of that ratio, the average payroll in 1941–50, 10 years, was 64.8 percent.

Moving up to the second quarter of 1957 in the lower table, the payroll was $257 billion. If you will divide that by 64.7 percent, it requires a national income of $397 billion to get that payroll. In December we were producing 36 percent more than we were in 1947–49, and at a price level of 121 percent. Net production was putting out an income of $347 billion, $50 billion short.

Now we will take a look at this payroll, and if you will divide the $136.5 billion into $257 billion, you will find that the payroll increased 88.3 percent. Further, if you will divide the 88.3 percent by 121 percent, your consumer price level, that payroll would buy 55 percent more goods than it did in 1946–50.

Now, then, can labor earn this payroll—and I am not using this to point at labor, because I am just using it as a factual demonstration.

In July 1953 our production reached a point of 137 percent against the 1947–49 level, and at that point we went into a recession because we had not maintained the farm prices up to that point.

Our records show that we have an annual increase in output of 4 percent a year, and have had such an increase from 1910 to 1956. That is the average increase in total output. If we had had a 4-percent increase per year from July 1953 up to December 1956, we would have been producing 160 percent of 1947–49, and that amount of production, times 121, the price level, would have given the United States an income of $408 billion.

The point I want to make is that the labor forces we have, with the equipment that we have built, has the efficiency and can produce the 160 percent of 1947–49. But to keep on producing it, those goods must be sold, and they cannot be sold with the dislocation that exists in our economy except through borrowing from the future to buy it.

I will illustrate that: The weakness of our whole economic fraternity has been that they completely ignore agriculture; they completely

ignore the fact that agriculture and small business are tied closely together due to the fact that small business in rural areas is a service center, between the farmer and the manufacturer. Small business gets its income out of the value of farm products and other raw materials.

I will prove that to you:

In 1946–50 you will note that the net income to the farmer was $14.2 billion. The total value of his products was $32.2 billion.

If you will apply arithmetic to that, you will find that the farmer received a little over 44 percent of the total value of what he produced and the other 56 percent went to create income for others in rural areas.

Let us take the combined income of the farm operator and small business in 1946–50 and add those up. You have $35.6 billion.

Now let us examine this group. You have 5 million farmers and with a family of 4, they represent 20 million people. You have 4 million small-business men, and with a family of 4, they represent another 16 million people. If they are all employing 1 man on the average, that is 9 million business units, and you have involved about 72 million people in the income of those 2 groups.

Now we find that in 1946–50 they received $35.6 billion. We also note that the payroll has increased 88.3 percent. Now, to keep small business and the farmers in balance, they should have had a 88.3 percent increase. That would have brought them up to $67.6 billion.

Instead of that, they were paid in 1957 $40.9 billion. If you will divide $35.6 billion, their income in 1946–50, into $40.9 billion, you will find that these 2 groups had an increase of 14.8 percent, as compared to 88 percent increase in the payroll.

If you will divide that buying power by 121 percent, this group of farmers and small business can only buy 95 percent as much goods as they could in 1946–50. That is why you cannot sell current production. You cannot operate and meet this payroll without restoring the income of the groups to balance, because you will not have the market for them.

In the paper this morning I read that the Secretary of Agriculture had, in talking to the Press Club, stated that labor had had too much of an increase. Well, I am not arguing whether they have had or not. I know we could produce it provided we made it possible for this economy to stay in balance so that the goods could be sold. But, let us assume that we decided this payroll is too high. The record shows it is $257 billion. Therefore, let us cut it 10 percent across the board. That will reduce the payroll $25.7 billion, and that will wipe out a buying power of $25.7 billion, and we will have a flood of repossessions of homes, automobiles, household equipment, and so forth which will flood the country. We cannot permit that to happen, because if we do, we will have a repetition of the thirties with about four times as much money involved.

This dislocation between the small-business man and the farmers and the rest of our economy is the greatest dislocation that has ever existed in the history of the United States. Theoretically, our economists tell us that the law of supply and demand is going to maintain this balance and yet here you have a record where your payroll has gone up 88.3 percent, the buying power 55 percent more than in

1946–50. Yet the income of a farm operator and small business combined has gone up only 14.8 percent.

The law did not work, and if it does work, the Russians must have swiped it and hid it behind the Iron Curtain, because there is the record, gentlemen.

If you will go on down, you will find specifically who lost what as compared to this loss of $50 billion. The farm operators should have been paid $26.7 billion. However, they were paid $11.8 billion. They lost $14.9 billion.

Small business should have received $40.9 billion, but it was paid $29.1 billion. In other words, small business lost $11.8 billion. They do not know what for, but they lost it just the same.

Rentals will show a loss of $2.9 billion, and I might explain that rentals are always slow to keep up with an expansion when you start in the downward trend. They are always slow to come down with the rest of the economy, because rental contracts are made over a period of years.

The next item is interest. You will see that the interest is well taken care of. That is due to two factors. One is the increase in interest rates since 1946–50, and the other has been the increase of this $270 billion debt that I mentioned. This is an interesting and very important matter from the standpoint of the Appropriations Committee.

Your corporate profit should have been $50.9 billion and it was $42 billion. The reason it is important to the Government is because 52 percent of the profit of the corporations goes to the Government in tax revenues. Here are your large corporations in the United States. They have the prestige and the money to hire the best economists in the land, showing a loss of $8.9 billion in profit in ratio to the payroll and income in 1957.

To project that and bring out a fact that is almost unbelievable, in 1950 with a national income of $240 billion your corporate profit was $40 billion. Here we are in 1957 with an increase of $118 billion above 1950. With that $118 billion of increase in national income, the corporate profit moved up only $2 billion. That thing proves the absolute fact that we are operating this economy at a loss.

Why did we lose it? If you will take your consumer sales, we will see. If your consumer sales in relation to the $397 billion, had maintained the same balance that existed in 1946–50 with $211 billion, your consumer goods sales should have been $219.5 billion. They actually were $174.1 billion, which was a loss of $45.5 billion. In that there was over $50 billion income.

Where are we having unemployment? I am going to use Business Week, which is a leading magazine in the United States, for an illustration, because it carries the production index that is current:

In the February 3 issue, which is out, you will find that they use 1946 as a period of 100. They show that our index a year ago was 152.8 percent of 1946. They show that in the latest week it was 130.9 percent. If you will divide 152.8 percent into 130.9, it shows that your output of goods at the present time is 14.4 percent less than it was a year ago.

A year ago our output was creating $355 billion of income. So, with 14.4 percent less production, you would lose $51 billion because you were not producing that amount of goods at the prices.

Let us take the case of employment. This payroll is paid out to the 55.8 million workers which reflects an average of $4,600 each. Now, to show you the dislocation in buying power between the man on this payroll and this farm operator, if you divide this $11.8 billion paid to the farm operators by 5 million, you have an average annual pay of $2,360.

It is evident that they are being underpaid, and that they cannot possibly buy the goods being put out by the payroll and by the productive equipment which we have in the way of factory facilities.

Now, if you will take 14.4 percent of 55.8 million workers, you will find that you will have the equivalent of 18 million workers today that are not needed at all to put out the present output. The unemployment shows about 4.5 million or 5 million. By that, we do not class a man as unemployed unless he is unemployed for about a year. In other words, anyone who works a month is considered as employable in some of the tabulations.

Mr. WHITTEN. In some segments of our operations they do not list themselves with employment agencies, and there is no record of the man who might not be so listed.

Mr. WILKEN. The point I want to make is this: Even though there is only 4.5 million unemployed, I know that there is another 3.5 million equivalent unemployed by having less hours of work per week, because we have 8 million people whom we do not need to produce our goods.

Now, gentlemen, this is very simply a record, and the proof is there.

Before closing, I want to point out very specifically what the situation was in 1946–50. With this $32.2 billion of farm production, here is what happened to it:

We exported $3.2 billion worth, which was almost exactly 10 percent of the total value of our production. We imported $3 billion worth. Now, this surplus is always your production plus your imports, minus your exports, and what you have not consumed. We actually had a $200 million surplus in that period with a 90 percent price support. That is six-tenths of 1 percent.

If, following 1946–50, we had increased our farm exports in direct ratio to the increase of national income that took place year by year, we would have exported $27 billion worth of farm products. In that period we exported about $17 billion.

In other words, there is your accumulation that we are talking about as a surplus.

Why could it not be sold in the rest of the world? Because of the break in farm prices. It wiped out about $20 billion of earning income in the United States. In the rest of the world it wiped out about $180 billion because we produce 10 percent of the world production.

We confounded the issue because in 1951–56 we imported $7 billion more than we exported.

Now, to show you that this is not a result of overproduction, let me give you the record:

In 1948 our total farm production was exactly the same as it was in 1956–57.

The point I want to make is there has been no expansion in 9 years. Yet we have had a 15 percent increase in population, and we have had an income increase of about $147 million in national income to buy it with.

Mr. WHITTEN. Mr. Wilken, if I follow you—and I think I do—the dislocation primarily traces back to the fact that farm income has been going down. That in turn has greatly reduced the purchasing power of the farmers and small-business people who are directly tied to them, and that decreased purchasing power is being felt all the way through our economy.

As you pointed out, it represents a dislocation.

I would like to ask this: Do you see any hope for the situation improving, or do you believe that it will get worse if we don't, through one means or another, see that the income of the raw material producers, the farmers and the small-business folks connected or associated with them, comes back up a comparable level with that of others. Do you see any hopes for any improvement?

Mr. WILKEN. Unless Congress does something about it the chances are very good for further disclocation for this reason.

Mr. HORAN. What should Congress do?

Mr. WILKEN. I would like to answer this first.

Mr. HORAN. That is the answer you should give.

Mr. WILKEN. I will. For example, with this unemployment situation, this payroll is heavily mortgaged to the extent of about $43 million. That is the installment consumer credit. Even though he gets a check for relief compensation, that check will only be about 40 to 50 percent of his normal income. He has obligated himself to pay for a car, household equipment, furniture, and a home. He is going to be put in a position of letting that stuff go or try to balance his budget at the grocery level.

The point I make is, if we have this unemployment, which we have, the tendency will be to reduce farm consumption and therefore reduce the price.

DISCUSSION OF SOLUTION TO PROBLEM OF ECONOMIC DISLOCATION

Now, then, what should the Government do, as Congressman Horan asked?

According to my information and knowledge, the President of the United States, through the Secretary of Agriculture, has the power to support the price of all farm products at 90 percent of parity, and even at 100 percent of parity if he deems it necessary for the welfare of the American people.

Even though you have a flood of farm legislation, the authority already exists. What can Congress do about it?

Congress should enforce the use of this legislation; because without using it, there is nothing that Congress can do.

Mr. VURSELL. What legislation do you refer to?

Mr. WILKEN. Farm legislation. In the 1949 Agriculture Act you have the specific law which says that we can support the price of all farm products at 90 percent of parity. The only change that has come about in the last 4 or 5 years is that Congress has delegated its rightful powers and made it permissive for the Secretary to reduce the supports, first, to 75 percent. If I have been correctly informed, in the legislation he is now asking to reduce it to 60 percent.

Mr. WHITTEN. Could I interupt to bring to your mind what the record shows in the Department from last year's hearings. We have

had the same presentation this year. I haven't had a chance to bring it forward for the moment. I will before we get through.

Price supports have been reduced an average of 20 percent, and farm income in the same period has gone down an everage of close to 20 percent. Certainly anyone would take it that there was at least some relationship between the two, where the records of the Department disclose that.

Mr. VURSELL. Over what area is that?

Mr. WHITTEN. During 4 years. Up until last year, price supports have been reduced an average of around 20 percent. Farm income in the same period has gone down almost equally as much.

Mr. HORAN. Supposing that this committee can agree that we should pay 100 percent of parity. I will vote for it, but what are you going to do about acreage restrictions? You had better write those off because we can't restrict acres and see Mexico tripling their cotton production. I think the place to start in is the full production of agriculture. That is the point. It is not price supports. I will go along with those. You can't live with acreage restrictions in America, not on any part of our economy.

We have to start in by getting rid of those acreage restrictions.

I agree with everything you have said, but in all the legislation before us we have got these acreage restrictions. We have to find a way to get rid of those. Let's quit talking about prices. Let's talk about full production.

Mr. WILKEN. I know. Let me back up a little so that you get the right picture. This surplus accumulated from underconsumption, not overproduction.

Mr. HORAN. I will buy that one.

Mr. WILKEN. Let's go on from there: If you are to maintain the rate of exports that you have in 1957, that the bulletin from the Department points out, amounting to $4.7 billion——

Mr. HORAN. Please. Forget that when we cut acres in America, the foreigners increase their acres. How are you going to export into a surplus market? Tell me.

Mr. WILKEN. Well, what is your situation?

Mr. HORAN. You have got to get rid of acreage restrictions in America, period.

Mr. WILKEN. All right. You produce 10 percent of the world's supply. You hurt the United States if you try to control the world's supply by reducing in the United States.

Mr. HORAN. I agree with you. Answer my question.

Mr. WILKEN. You want to get rid of the surplus. The first thing you have to do is restore income in rural America to get back domestic production.

Mr. HORAN. How will you do it by restricting acreage? I agree with you, Mr. Wilken, but answer my question.

Mr. WILKEN. To meet this payroll and to buy the goods that labor should put out, you should be producing 15 percent more than you produced in 1957.

Mr. HORAN. I will buy that. How will you do it and live with acreage restrictions?

Mr. WILKEN. I am not in favor of acreage restrictions.

Mr. HORAN. Tell me how you will get rid of them.

Mr. WILKEN. You have got this practical situation: You have got $7 billion that we permitted to pile up as a result of underconsumption because of low farm prices. You can't restrict acreage.

Mr. HORAN. Now you are almost on my side.

Mr. WILKEN. If Congress will take steps to continue the rate of export——

Mr. HORAN. Into a market where we have allowed Mexico to raise from 727,000 acres in cotton to 3.5 million? How are you going to export cotton to Mexico?

Mr. WILKEN. Let me give you a picture.

Mr. HORAN. Or to Egypt or to India?

Mr. WHITTEN. Could I interrupt at this point?

I agree with my colleague from Washington on this acreage-control program. I think that is one of the real weaknesses in our farm system—and there are many, some of them administrative, some of them defects in law that have shown up. All our efforts to control world production by restricting acreage in the United States have proven to be unsuccessful.

I am convinced, after sitting on this committee for several years where we review the entire operation, that efforts to control the production by acreage has been a mistake, because in the process you have prevented the farmer from economically operating his acreage, his farm. You have made him own far more farmland than he was able to work from an economic standpoint. He had to own 2 or 3 times as much farm in order to work part of it.

Not only that, but because his acreage was limited, he has increased greatly his annual cash operating costs because he bought fertilizer to the *n*th degree. I am in thorough agreement with my colleague.

We have to get some relief from that. I do think we must see to it in the interest of the whole economy that the farmer gets parity price—we can argue about that but we have to see it through. But, if it is in our laws, I thinks perhaps we would have to limit the supply or production that we would give such assurances on.

I have always argued that it should be on bushels, bales and pounds, where you can make the parts fit, taking into consideration proper domestic consumption and proper export. I just wanted to say at this point that I agree with my colleague to that extent.

Mr. WILKEN. Let me illustrate specifically just what I would do if I could. I would ask Congress for permission to freeze this supply in the stockpile, and I would ask permission to move any of it that was in danger of spoiling, and replace it with grain that is in good condition. In other words, I wouldn't permit any of it to go into the market.

You say that can't be done. Let me give you an illustration: In 1954 we spent $900 million to put metals in the stockpile. We spent another $900 million in 1955 and 1956 to put metals in the stockpile, with what result? We maintained the metal price of the world at a price level that our American mines could operate.

January first of last year we started to reduce that buying. Now your mines are starting to close up all over the United States.

If we would freeze that stockpile like we did the metals—they are not available for market, we have them in the stockpile—then we could get a price recovery to get back your consumption.

Mr. WHITTEN. I agree with the point that you are making and would like to add to it this thought, which I believe in greatly.

I sit on the Armed Services Appropriations Committee, and quite definitely in my mind some of the requests for additional defense spending is, as the Christian Science Monitor said last December, "An effort by the Government to pump prime an economy which is going down."

I think that is a very dangerous place to attempt to pump prime, if pump priming is in order at all, because history shows that when you get that mixed up in defense, frequently you don't get much defense for your money.

I have other reasons, with which I won't belabor this record, to feel that there is plenty of waste in defense. Much of it doesn't go in the right direction. Be that as it may, whatever we do for defense purposes is pulled off the regular market and is not a depressing influence on the American economy. But if we are in a serious enough international situation to be spending some 65 percent of our national budget on defense, certainly it is in order to have a reasonable supply of farm commodities—cotton, corn, and all the rest. But under our system, as you so well point out, these supplies, which definitely are essential to our overall international security, are left as a depressing influence on markets.

I agree that whatever amount is determined to be essential as a reserve certainly should be stockpiled and shouldn't be a depressing influence.

Now, as long as we know we have got it, those that deal with it know it is there. It might have some effect, but the fact that our volume of supply was stockpiled would certainly have a much less depressing effect on farm income than when it is carried as a surplus, instead of as something that we were holding back for defense purposes.

Mr. WILKEN. Let me illustrate the comparison. I don't know the exact figure, but you men have that available. We have about $6.5 billion of strategic metals in the stockpile.

Under the law, none of it can be sold, except by direct order of the President, and he has got to prove an emergency.

In other words, it does not represent a deterrent to market conditions.

Mr. HORAN. It certainly does. I would like to agree with you. I agree with everything you say.

Please, what we want is a practical solution, and I think Congress has got to come up with one. We have suggested out our way, and it will work, that we abide by the things you have here on your list. I think they are pretty factual, Mr. Chairman. The wheat growers have done this with domestic parity. They say, "Let the farmer have his share of the national income, up to 50 percent of his production, at a hundred percent of parity. I am for it. I support this."

The other percent of his production he sells where he can, at home, for feed, and of course we run into the corn boys on that one. Or he sells it abroad as we are doing now under foreign aid and a few other programs. He tries to underbid Canada, who, of course, can sell their wheat cheaper than we can. Until we come up with something that will not restrict acreages and something we can live with, Mr. Chairman, we have got to find a solution. It is all very well to sit here and, you might say, commune with each other and say how

rotten things are, but until Congress acts and comes up with a workable plan, there is no use of us going over all these ashes.

Mr. WILKEN. Let's take a look at the record. Get away from wheat and go to cotton.

Mr. HORAN. You get into acreage restrictions again.

Mr. WILKEN. Here is what happened: In 1937–39 we exported 7 million bales of cotton a year. That is not theory, but the record. In the period 1939–56 we averaged 3 million bales a year. If we had maintained that 7-million-bale export during that period we would have had to produce 48 million bales more cotton than we produced.

Mr. HORAN. That doesn't prove anything.

Mr. WILKEN. The point I am making is that you lose the market for it.

Mr. HORAN. Of course you have. You have had an unworkable program here. We have had to break that.

Mr. WILKEN. No.

Mr. WHITTEN. I don't want to let the record close at this point without pointing out again that, under the original farm act, it was contemplated that the cotton and wheat and these other commodities that were supported in the United States would be exported.

The law has always clearly authorized sales in world trade at competitive prices. Once we got the Department to use its authority to export cotton competively, exports last year came back up to its 7 million bales. If we had used that law through the years, as the law contemplated, we would have maintained these exports, and in my judgment would have prevented the expansion of acreage in foreign countries.

That is an old story to us on this committee, because I have pointed it out for years before we got it used.

May I say, from what I hear, I understand that the Department is about to come out and say "We won't export on the basis of competitive prices. We are going to start providing an export subsidy."

My information is that they are thinking about doing that the first of the year, and let the export subsidy stay fixed for a whole year. If that is true, we are getting back where we were. It will mean we are not competitive, but holding an umbrella for a foreign country to come under. It is most disturbing to hear such reports.

Mr. HORAN. I am afraid your information is correct. We can't live in this country with acreage restrictions. We just can't do it. I was hoping Mr. Wilken would come up with some solution to this. I don't mind a fellow looking at me and telling me "He sure looks sick." If he is a doctor, I would like to know what the cure is.

Mr. WILKEN. Here is the cure. You have got $7 billion of commodities in the stockpile. That is the present report. If Congress will order that that be frozen as a reserve, and if we keep up these exports out of each year's crop production, you won't have to have any acreage restriction.

Mr. HORAN. How are you going to do that, please?

Mr. VURSELL. Pass a law.

Mr. WILKEN. Do it.

Mr. HORAN. What law?

Mr. VURSELL. Pass one.

Mr. HORAN. I would like to have the particulars here.

Mr. WILKEN. In a few days you will be asked to vote to increase the budget $1½ billion for Government employees. What is the reason? To bring their wage scale up to meet the cost of living. How will you do that? You will pass a law.

Mr. HORAN. What law will we pass?

Mr. WILKEN. You have the law on the books, providing you can bring this farm price up to parity. How are you going to make it work? You can't unload this $7 billion that has accumulated as a result of errors. You say it is an artificial price.

Mr. HORAN. I didn't say that. I said as far as the world market is concerned it is an artificial price. That is all I am suggesting. I am suggesting to you. You don't have any suggestions. I am suggesting to you what our own wheat people have come up with in the domestic parity plan.

Mr. WHITTEN. I hate to interject again but I would like to point out that the domestic support level has never constituted an artificial price in world trade. The law itself says that we will sell anything we don't need in world trade at a world price. So it has never been an artificial price so far as the world is concerned. It has always been a law to protect the farm income in the United States with a complete open valve for sales in world trade.

Mr. HORAN. As long as you have restrictions it cannot be anything else at home.

Mr. WHITTEN. I think that time has proven that acreage restriction is unsound. But domestic support levels and exports have never had any connection between them at all, because the law authorizes exports in world trade at competitive prices. They just didn't use it.

Mr. HORAN. Why not say so in the law and repeal the act of 1938?

Mr. WHITTEN. Let's get back to this. I appreciate Mr. Wilken coming down here.

Mr. HORAN. So do I.

Mr. WHITTEN. My purpose in having him here is along the line that the gentleman from Washington has mentioned. I don't know that Mr. Wilken could tell Congress what law to pass. But if we can make this picture plain, what low farm income is doing to the economy, it might constitute some pressure on the Congress to pass such laws as are required.

On the other hand, it might serve as pressure on the Department of Agriculture and the Government to do such things as they may do along this line within the limits of present law.

As Mr. Wilken pointed out, under present law, farm prices could be considerably higher if the Secretary of Agriculture or the President would see fit to exercise their powers under existing law.

Mr. WILKEN. Mr. Chairman, let me sum it up very bluntly. We lost $50 billion last year. We will continue to lose it in 1958 unless we do something about it. Is Congress willing to take the time out and devote 3 or 4 billion dollars, if that is what it takes, to recover the $50 billion, or are we going to continue to lose that and some more?

Mr. WHITTEN. I am in accord with you. How similar is this situation to that that existed in earlier years when we ended up with a depression?

Mr. WILKEN. You have never in all the history of the United States had the dislocation between farmer and small business and the rest of your economy that you have at this moment.

Mr. WHITTEN. You have studied prior depressions in this country in your experience?

Mr. WILKEN. Yes, sir.

Mr. WHITTEN. The income of what segment dropped first in prior depressions?

Mr. WILKIN. Every major depression in the United States, and in the world, has started with a depression in raw material prices.

Mr. WHITTEN. Which means agriculture as well as in raw material.

Mr. WILKEN. If you will go back to the record of 1925–29, we didn't have any surplus of farm products, because in that 5-year period we didn't expand our agricultural production.

Mr. HORAN. I will have to correct you there, because I was cutting my teeth on this thing, that business takes the elevator and labor takes the stairs.

Until 1920 when your labor movement in this country got started they took the brunt of most of your depressions of the past. That is feed for your gristmill. I had to correct you on that.

Mr. WILKEN. Let me point out what happened. This is all available.

In 1910, Congressman, we had a wage level of 22 cents an hour. Our whole economy was in pretty good balance. Then we went into World War I and our income moved up from $32 billion to $71 billion, a terrific jump in that short period. What brought it about?

Increase in price levels, increase in wage rates to 50 cents an hour. Then we went into a depression. What was the correction? Congress supported prices, by the simple process of passing a tariff, protecting American manufactured goods, so that they could pay that 50 cents an hour. The result was that in 1925–29 we averaged $82 billion instead of $22 billion—a 75-percent increase in the consumer price level. We didn't call it inflation.

Mr. VURSELL. I would like to raise a question before we adjourn for lunch, if I may.

I have a great respect for Mr. Wilken and a great friendship for him, but I understand that, as I got here this morning, is that what we need to prevent a depression and bring, I would say, prosperity to the farmers, is greater consumption, and the facts are that if the farmers made the amount of money they needed to, et cetera, that this underconsumption would be taken care of.

Now isn't it a fact, Carl, that during the past 4 or 5 years at least that we have had the greatest consumption of farm products on the local level ever in the history of this country, and that at the same time, by giveaways, and other things, our exports have been largely recovered, until now farm exports are probably the largest they have been since 1952.

Is there any farmer, is there any laboring man, is there any businessman in this Nation that isn't buying more automobiles, more gadgets, more food than ever bought in the history for the past 10 years?

I think the problem is that you have increased production so fast, and that we have allowed people—we haven't allowed them—but while we have been increasing production and we have had high world prices, as the chairman talks about, other countries have gone into producing agricultural products all over the world, and while

we gave away what we did, we can't force them on these nations much faster than we are.

I just can't hold with your theory that underconsumption is the cause of low price of farm products, has too much to do with this so-called recession or depression that we are about to go into.

And now another thing: I think it is a fair thing to say that if you look at the profits of small business, that the profits of small business have run higher by far than the profits of big business. Of course, big business doesn't have to get such a big profit, because they do so much volume.

We are talking about the people that are suffering—the small-business men and the farmer. I am sure the farmer is suffering. I don't think there is any question about it; but, because of the farms getting larger and the population on the farm percentagewise going lower, yet their production is going up—where has he got the buying power to reverse this trend, even if we can give him 90 percent or 100 percent of parity?

Mr. WILKEN. Now, Mr. Congressman, I am going to have to disagree with you. If you will take the records, and divide the income of small business in 1946–50 into what they were paid in 1957, they had an increase of 35 percent.

On the other hand, the increase in payrolls and capital operating profits in the United States was up 82 percent, those two combined.

Mr. VURSELL. I want to ask you another question. There was constant increase in wages, which went up when the farmers' prices were going down, 30 percent from 1947 to 1952 in their prices. Wages went up about 37½ percent. For people that made farm implements, don't you think that has been penalizing the farmers and is to this day under both the past administration and the present administration?

Would you suggest that one of the troubles of this depression is that there aren't wages enough being paid in this country?

Mr. WILKEN. Not at all. Your conclusion is absolutely sound.

Mr. VURSELL. My conclusion is derived by Bureau of Labor Statistics figures. It costs the farmer about $5 billion more now to put in and harvest his crop than it did back in 1946–50.

Mr. WILKEN. All right. Here is the thing we forget. We have a real situation to deal with. Here is the wage thing you mentioned.

In 1939 we were paying 63.3 cents an hour for industrial labor. That was the average. Today it is $2.10. Your wages have increased much faster than their delivered output.

Mr. VURSELL. Doesn't that bring about inflation and help to cut the dollar to the farmer when he gets one?

Mr. WILKEN. There is no question about it. That is why you have got to take care of this farm income.

For example, your parity equation doesn't lead the way. Your parity equation is established by what your payroll is, and by what your capital operating costs are. They make up 80 percent of the national income.

Mr. VURSELL. May I interrupt you right there? The capital operating cost of the farmer has gone up tremendously because of the terrific prices he has to pay for his farm implements and wages, and a good part of that, of course, is caused by labor.

Isn't that right?

Mr. WILKEN. I will illustrate it specifically: The economists are very glibly going out through the country and saying, "This farmer is producing more efficiently. Therefore, he can sell for less."

He is producing more efficiently, no question about that, but the economist forgets that it costs to buy efficiency. His costs in 1957 for producing his crop are over two times the entire value of his farm production in 1939.

Mr. VURSELL. I am on the farmer's side in this argument. I think the farmer has been robbed from one side to the other.

Mr. WILKEN. I agree with you.

Mr. VURSELL. I don't know how you will fix it. I think you should stop some of the robbery, to begin with.

Mr. WHITTEN. This record will show that the situation has deteriorated very badly. I have one letter which I put in the record from the wife of a large well-to-do farmer. She said there wasn't a single new automobile in the southern half of her county.

This acreage reserve has further aggravated the situation. It means that where the Government has offered farmers cash not to farm, they have had lines several blocks long, and the Department had to close the doors after three days. Folks were there at midnight, since they could get some assurances of cash, in view of the terrible farm situation. Since we referred to small business, I would like to insert a statement from the Administrative Office of the United States courts showing the increase in bankruptcies in small business since 1950. This shows just what the effect is, as illustrated by that one yardstick.

(The information is as follows:)

MEMORANDUM RE SMALL BUSINESS BANKRUPTCIES

The statistics compiled by the Administrative Office of the United States Courts on bankruptcy cases do not reflect "small business bankruptcies" as such. Nevertheless we do tabulate for each fiscal year the number of cases filed by merchants, manufacturers and others in business.

For the fiscal years 1950 and 1957 these were as follows:

Fiscal year	Merchants	Manufacturers	Others in business	Total
1950	2,565	80	4,568	7,936
1957	3,160	665	5,710	9,535

The term small business is, of course, a relative term, but it would seem to me that perhaps 95 percent of the above totals could be regarded as small businesses by modern standards.

Beginning with the fiscal year 1954, we have tabulated ordinary bankruptcy cases closed each fiscal year by the amount of assets realized. These figures show the following:

	Assets realized $25,000 or less	Assets realized $25,001 to $50,000	Assets realized over $50,000	Total
Number of cases:				
1954	4,819	131	112	5,062
1955	6,042	154	124	6,320
1956	6,712	178	145	7,035
1957	7,283	221	164	7,668

Respectfully submitted.

EDWIN L. COVEY,
Chief of Bankruptcy.

Mr. VURSELL. I would like to confirm a part of what you say. I don't know whether your conclusions are right or wrong. They may be. I picked up a paper that came from my district today, and the paper indicated that 15,000 or possibly 20,000 farmers in Illinois are willing to put their land in the soil bank at the price that these farmers ask.

I don't know whether the prices are so high that that has made a ridiculously high number of farms that they have submitted. I am sure that at most of those prices probably the farmer thinks he would do better to give his farm over for 5 to 7 years to the Government. It is alarming when you have 15,000 or 20,000 farmers in Illinois that are willing to take all of their productive land and turn it over to the Government.

Mr. WHITTEN. You can see what the effect on business will be in every one of those counties if he quits farming, can you not?

Mr. VURSELL. It will have a bad effect on business.

Mr. WHITTEN. If your counties in Illinois really have ghost towns, what effect do you think it will have on the orders that your county used to send to the large cities from which they order?

It is a vicious circle. I agree, Mr. Wilken, the starting point is raw material.

May I pass the witness on to Mr. Marshall?

Mr. MARSHALL. Mr. Wilken, I am very much interested in some of the statements that you made before this committee. You always bring thoughts before this committee that are helpful.

You made mention of the fact that if we were to freeze our stockpiles to permit the market to move outside of that stockpile that it would materially enhance the income of the American farmer.

I am wondering if you have made any study as to the effect of the stockpile operations to the cost of the taxpayer. I might say this, in clarifying what I mean.

I am not discounting a thing that you have said concerning the effect on the economy, but what I am getting down to is just the item before this committee. We have had some expensive costs in stockpiling which, if I followed your explanation a moment ago, might have been alleviated somewhat if the market had been able to operate. Is that correct?

Mr. WILKEN. Let me make this point: As I pointed out, if the price level had been maintained and our exports had been maintained, we wouldn't have this surplus and of course there wouldn't be any cost.

Take the long-term record of price supports, up until the time we didn't maintain them, following 1951. We didn't accumulate any surplus. To illustrate that, from the standpoint of the fear of cutting back acreage, in 1952, at the end of 11 years of 90 percent price support, and with production of 1.2 billion bushels of wheat as an average in 1947–49, you had 256 million bushels of wheat in the stockpile, which was hardly a normal carryover for the United States.

In 1953 to 1956, 4 years, we cut back wheat production and had 200 million bushels less per year than we did in 1947–49, and we built the surplus up from 256 million bushels, to a billion. There is where the cost came in.

Mr. MARSHALL. Would it be your impression that if you lower price supports to the extent that it forces commodities to the Government

warehouses, to the extent that it did, that it can have only one effect, and that is by forcing the Government more and more into warehousing?

Mr. WILKEN. Yes.

To illustrate this very dangerous concept of 60 percent price supports, if you will check the record you will find that in 1932 and 1933 the farmer averaged 61 percent of parity and we had the worst depression in the history of the United States.

I am telling this committee that, if farm prices ever go to 60 percent of parity, you will have a duplication of the 1930's, with about 4 times as many dollars involved.

Mr. MARSHALL. It seems to me on the basis of some of the studies which I have been able to make of some of these price support operations, starting with potatoes and the same is true with a number of other commodities, when you lower the price support to a lower level, you cause an accumulation of surpluses rather than a dropping off.

Mr. WILKEN. I would like to make just one brief comment, Congressman Vursell. This will just take a minute.

We have this $257 billion payroll. That is a reality. Since 1940 we have added over $600 billion to the total debt of the United States, bringing it up to about $840 billion. You can't operate and pay the cost of that debt unless you maintain the present payroll, and unless you bring the other products up to it.

Mr. WHITTEN. Mr. Natcher.

Mr. NATCHER. Mr. Wilken, I want to thank you for the fine statement you have made to our committee this morning. I certainly agree with some of your conclusions.

Mr. Wilken, as you well know, during the past few years we have tried the soil bank, price controls, acreage controls, export subsidies, plowing under. In addition to your conclusions as to what we need at the present time of fixed price supports at 90 percent of parity and the holding of our surplus commodities that are storable, what other suggestions, briefly, do you have to make at this time as to a program?

Mr. WILKEN. First, I will answer this theory, which is very prevalent, and always has been, that somehow, some way, the free market will maintain a price for farm products.

Now it is absolutely impossible for it to do so for this reason: The farm production is in an annual crop cycle, and at harvesttime you have a 12-month supply and 1 day's demand. Yet, somebody has got to carry it, if society is going to keep on having some until another crop is produced.

Now, then, it isn't going to cost any more to carry it in the hands of the farmer than it will in the hands of the private trade.

Industry today has $89 billion of inventory. Who pays for the cost of that? Not the Government, but the people of the Nation. The people pay for it, in the price that they have to pay for the goods they buy.

Mr. NATCHER. What other suggestions do you have?

Mr. WILKEN. We have got to change our approach to the world market. We cannot expect to sell goods produced with $2-an-hour labor and buy them back and pay $1 a day for the things that we buy back.

What can we do about it?

We have one of the finest illustrations of how world trade should be carried on in the sugar agreement. Under this sugar agreement in 1955 and 1956, we paid to Cuba, f. o. b. Cuba, 54 percent more for sugar than England, France,and the other countries paid.

If we could get the concept of trading with the world that we would pay a comparable price for whatever we buy from the rest of the world to the price that we sell them, they could earn income to buy any surplus that we may have. That sugar agreement could be extended to every commodity in the United States. It has worked ever since 1946. It has made it possible for United States domestic producers to produce and at the same time it has given Cuba and others a better price.

There are a billion people in the rest of the world with a hundred dollars a year in income. It ought to be self-evident that there is a tremendous market for food in those areas, but those people must earn their income in the production of farm products and other raw materials.

The situation we face in the United States is worldwide; for example, we have 35 leading commodities in the world today, at 70 percent in ratio to the cost of manufactured goods. In other words, earned income of the entire world is 30 percent too low to buy the output of the factories in the United States, Germany, England, Japan, and throughout the world. That is the picture.

Here is where we have been so shortsighted. We have tried to cure the world situation by cutting back farm products that amounts to 10 percent of the rest of the world. A 10-percent production in the United States which we can afford has no effect as far as determining world prices is concerned.

In my opinion, if we were to give the world leadership and point out and say, "Here we have an economy that shows how things should operate. In other words, price balance has to be maintained. We are going to take steps to maintain this price balance in the United States and then we want your cooperation to bring the price of basic raw materials to the American parity so that you can earn your income to buy from us, so that you can earn new capital to develop with."

If we follow the other policy of maintaining American prices and then dumping on the world, we force them in a position of forever continuing in this other direction.

Mr. NATCHER. Thank you, sir.

Mr. WHITTEN. Mr. Wilken, we appreciate your coming before the committee. Again our interest in bringing you here was because present conditions make it imperative that we study all the aspects that you so well presented to us. May I say that the thing that disturbs me in the Congress, serving on the Defense subcommittee as well as this subcommittee, is that at the present moment the Government is attempting to pump prime our economy through defense spending. This is unsound from a defense standpoint, and in my judgment does not cure the basic ills. At the same time governmental policies are forcing down the income at the raw material or farmer level, which I think is a starting point; history proves it and your testimony today supports that theory.

Thanks again.

REPORT ON TRIP TO LATIN AMERICA BY MESSRS. MARSHALL, ANDERSEN, AND JENSEN

(NOVEMBER 15 TO DECEMBER 15, 1957)

The following is a report on a 30-day trip to Latin America made under the sponsorship of the Agriculture Subcommittee. The group making the trip included the following committee members: Fred Marshall, H. Carl Andersen, and Ben F. Jensen. Staff member Ross Pope also accompanied the group.

PURPOSE AND ITINERARY

The purpose of the trip was as follows:

1. To foster goodwill and closer understanding between Latin America and the United States;
2. To study economic and agricultural conditions and opportunities for increased agricultural imports from the United States;
3. To review the results of the Public Law 480 program and technical assistance (point 4) activities in the area;
4. To get acquainted with the United States ambassadors, agricultural attachés, and other embassy personnel in the countries visited.

Mr. Marshall left Minneapolis by air on November 17 and arrived at Panama City on November 21, after spending 1 day at Mexico City and 2 days in Costa Rica. Messrs. Andersen, Jensen, and Pope left New York City on November 15 on a Panama Line ship, arriving at the Canal Zone on November 21.

After 1 day in Panama, the group visited Peru, Chile, Argentina, Brazil, Venezuela, and Cuba. Mr. Jensen returned to Washington from Caracas on December 11. Mr. Marshall returned to Minneapolis from Havana on December 15. Mr. Andersen and Mr. Pope returned to Washington from Havana on December 15.

The itinerary generally allowed 3 days in each country. One day was spent at our Embassy being briefed by the Ambassador and his staff, and holding discussions with resident American businessmen and others on trade relationships. One day was spent with the agricultural attaché driving through agricultural areas, visiting farms and looking at crops, cattle, farm equipment, and so forth. One day was used to make calls on the Minister of Agriculture and other appropriate officials of the country visited, and to do a limited amount of sightseeing and shopping. (A detailed schedule of the trip is attached as exhibit A.)

GOOD-WILL MISSION

The trip was very successful as a good-will mission. We had the opportunity to meet prominent officials in all countries visited—with the exception of Argentina—to discuss subjects of mutual interest, including agricultural trade relationships, and to exchange social amenities. In Peru and Chile, the Chambers of Deputies (counterparts of our House of Representatives) held receptions in our honor. These were well attended and many courtesies were extended, including visits to the official chambers. The officials in all countries seemed

to welcome the opportunity to exchange views. The comment was frequently heard that too few official United States delegations have visited South America and that our visit was extremely beneficial to United States-Latin American relationships.

Every opportunity was taken to assure officials and other residents of the countries visited of the strong feeling of friendship of the people of the United States for the people of Latin America. At every occasion a spokesman for the group pointed out the need for the countries of the Western Hemisphere to develop closer ties and to stand firmly together against all eventualities. The development of closer trade relationships were encouraged, both as a means of improving economic conditions in the Western Hemisphere and as a means of strengthening understanding and cooperation between all the nations.

The response from representatives of the countries visited was cordial and reassuring. The warm hospitality extended our group was fully appreciated and was taken as a token of the real friendship for the United States which exists throughout most of Latin America.

ECONOMIC CONDITIONS—TRADE POSSIBILITIES

Economic conditions were found to be excellent in Venezuela and Cuba. However, Panama is an ecnomically underdeveloped country, dependent largely on goods and services supplied to the Panama Canal Company. Peru is suffering from mild inflation, a shortage of foreign exchange, and possible further restrictions on mineral imports into the United States. Chile's economic problems are quite serious at present, due to a bad inflationary situation, a low world market price for copper, and a deficit world trade balance. Brazil also is experiencing strong inflationary pressures and unfavorable foreign exchange balances. Argentina is in a difficult foreign exchange position, also, particularly with the dollar area, and is faced with inflationary problems.

Markets in South America for United States agricultural commodities are quite limited, although some increases in the purchase of our agricultural products have taken place in recent years and further modest increases can be expected. Venezuela and Cuba are our two best Latin American customers at the present, and there are possibilities for further expansion in the future. Prospects for expansion of our markets in Brazil are good. However, it may be 5 to 10 years before any substantial expansion is realized.

On the other hand, market prospects are not good in Peru and Chile, due to lack of foreign exchange and because of our restrictions on mineral imports from those countries and current low prices for such minerals. Also Peru and Chile grow some of the same crops as the United States and are our competitors for markets for certain of their important agricultural products. Argentina has neither the dollars nor the need for our agricultural commodities, since she produces many of the same products that we do. What few dollars she has are used for industrial imports. Future markets in Panama will depend on the extent to which United States assistance can help improve the general standard of living in that country.

While Costa Rica is a small country, development prospects appear good. The agricultural crops produced in quantity include coffee, bananas, and cocoa, both having a ready market in the United States. It appears that with development, the people of Costa Rica would be a ready market for American products, including a considerable amount of agricultural products.

While the stop in Mexico was brief, it was noted that American goods were available in the stores and appeared to have a ready market there. In two instances, Peru and Mexico, the committee came across instances of the need of more careful selection of dairy animals exported from the United States.

In general, the greatest possibilities for increased United States exports to Latin America seem to exist in Brazil, Cuba, and Venezuela. The major export commodities of these countries, coffee, sugar, and petroleum, are in demand in the United States and this demand should expand with the growth of the United States economy.

Brazil, with a population exceeding 60 million (estimated to reach 100 million by 1980), and an area larger than that of the United States, is economically the most important country in Latin America. It is here that we should put forth our greatest effort in the field of market development. The rate of industrial development in recent years seems to indicate that Brazil will be one of the largest and strongest nations in the Western Hemisphere in the next generation. With her tremendous untapped agricultural, mineral, and industrial resources, Brazil should be an important source of new wealth to the Western World in the future.

A further discussion of each country, its economy, agriculture, and foreign trade activities is attached to this report as exhibit B.

Public Law 480 Program

As of September 30, 1957, Public Law 480 agreements with a market value of about $280 million have been entered into in Latin America as follows:

	Millions		*Millions*
Argentina	$30.4	Ecuador	$7.5
Bolivia	6.3	Paraguay	2.6
Brazil	156.9	Peru	13.1
Chile	37.1		
Colombia	26.5	Total	280.4

It will be noted that none of the Central American countries are included in the program and certain South American countries are not involved, including Uruguay, Venezuela and the Guianas.

These agreements involve $193 million of wheat, $66 million of fats and oils, $17 million of cotton, plus small amounts of feed grains, rice, tobacco, and dairy products.

The agreement with Argentina involved the purchase of 219 million pounds of fats and oils. The use of the proceeds of the sale has not yet been determined.

Over 50 percent of all Public Law 480 agreements in Latin America are with Brazil. They involve some 85 million bushels of wheat, 55 million pounds of fats and oils, 10 million pounds of dairy products, and small amounts of feed grains and tobacco. Eighty-five percent of the local currencies will be loaned back to the Brazilian Govern-

ment for economic development purposes, primarily for power and communications projects. The loans are to be amortized in 40 years, at 3 percent interest if repaid in dollars or 4 percent interest if repaid in local currency.

Agreements with Chile cover 8.6 million bushels of wheat, 8.5 million pounds of fats and oils, and small amounts of cotton and tobacco. The local currencies will be loaned to the Chilean Government for roadbuilding; agricultural research; construction of slaughterhouses, cold storage plants, and milk processing plants; agricultural credit; construction of dams and irrigation systems; port improvement; development of coal mining and nitrate industries; and low-cost housing.

Shipments to Peru include 7.2 million bushels of wheat, 8 million pounds of fats and oils, and a small amount of dairy products. Projects approved to date to be financed from funds generated by these shipments include $6.5 million for the development of two large irrigation projects to increase production of bananas, cacao, livestock, and long-staple cotton. The rest of the projects cover emergency loans to subsistence farmers in southern Peru, agricultural experimentation, purchase of railroad equipment, roadbuilding, and a construction of a leather factory.

Since total United States agricultural imports to Latin America have remained comparatively constant in recent years, it would appear that sales under Public Law 480 have replaced former dollar sales. It should be pointed out, however, that economic conditions in many of the countries are such that dollar sales probably would have decreased during the past few years in any event. It is difficult to determine the effect of the Public Law 480 program on dollar sales. Perhaps the keeping of United States commodities in the market places in these countries through this means will assure dollar sales again in the future, as the economy of these countries improve.

Technical Assistance Activities

Around $25 to $30 million a year has been provided in recent years for technical assistance (point 4) work in Latin America. Of this total, the program in Brazil runs about $4 million per year, and Peru and Chile receive around $2.5 million per year each. The programs in Panama and Cuba are $1 million or less and the amount spent in Venezuela is negligible. Since the inception of the technical assistance program in 1943, some $240 million has been expended in Latin America. About one-third of the funds have been used in the field of agriculture and natural resources. The other major areas of expenditure have been for health and education.

The point 4 program in the countries visited appears to be a good investment of United States dollars. A number of individual projects were inspected during the trip, and most of them seem to be worthwhile activities which are making a valuable contribution to the country in which located and are helping relationships with the United States.

It is the committee's opinion that amounts being provided for this purpose are fully adequate and further increases are not necessary at this time. However, there was a feeling expressed by some of the foreign officials contacted that the United States is not giving proper at-

tention to the Latin-American countries in its foreign-aid program. The point was made by several that we are more generous with our enemies than with our friends.

Aside from the question of the size of the program, the committee is in full agreement that the furnishing of beneficial technical assistance through well-trained United States technicians is essential in maintaining strong ties with these countries.

The possible exception to this is Argentina. Our Ambassador there is planning to initiate the first point 4 project in that country in the field of civil aviation. There is some question whether we ought to begin point 4 there, even though the Government of Argentina has requested it. The Argentine people are very proud, well-trained, and capable. Argentina certainly cannot be considered an underdeveloped country. It is doubtful that the United States would receive any benefit from point 4 in Argentina.

Costa Rica Research Station

The Inter-American Institute of Agricultural Sciences at Turrialba, Costa Rica, is a fine example of cooperative effort on the part of nations in the Western Hemisphere. The research and training on the part of agricultural workers is really outstanding. It has a fine atmosphere of friendship based upon principles of work and dedication for the improvement of agriculture. The United States may well take pride upon its contribution to this worthwhile work.

United States Representatives Abroad

The committee met with the United States Ambassador, agricultural attaché, and other top Embassy people in every country visited, both in briefing sessions at the Embassy and on other occasions. A major portion of our time was spent with the agricultural attaché in each country, since our principal interest was in that field.

With a few exceptions, the group was favorably impressed by our representatives in the countries visited. We found them to be well-trained, capable, and pleasant. We also found that they were well thought of by the people in the countries to which assigned. On appropriate occasions, the group expressed its good opinion of these people, both in the interest of good morale, and to let the foreign officials with whom they deal know we have confidence in our overseas representatives.

While anyone would be impressed with the friendly atmosphere developed with Mexican associates in Mexico City, it does appear to be desirable to review the work schedules to see if adequate time is spent in the outlying parts of Mexico.

The committee believes that it is imperative that the work and attitudes of our personnel working overseas be constantly reviewed by agencies concerned. People who represent the United States in foreign countries need to be cognizant of the fact that their actions have great influence on the foreign nations with whom they come in contact. The committee does not intend to reflect criticism on those who have dedicated themselves to foreign service. It wishes merely to stress the fact that the best interests of the people of the United States must always be foremost in their minds.

Exhibit A

Itinerary—South American Trip of Congressmen Fred Marshall, H. Carl Andersen, and Ben F. Jensen

(November 15–December 15, 1957)

Mr. Marshall flew from Minneapolis to Panama, stopping for 1 day in Mexico City and 2 days in Costa Rica. He left Minneapolis on November 17 and arrived at Panama City the evening of November 21.

In Mexico City, Mr. Marshall met with our representatives in the American Embassy. Also, with the assistance of Mr. Charles Baker, assistant agricultural attaché, he called upon Lic. Horacio Flores of the Agricultural Bank of Mexico, inspected a new slaughter processing plant managed by Ing. Jorge Rascon, and visited the municipal retail market. While in Costa Rica, Mr. Marshall flew from San Jose into the interior near Lemon in company with President Figueres' official party, including United States Ambassador Robert F. Woodward. He also visited a veneer plant at Lemon and then traveled by train to Turrialba to inspect the Inter-American Institute of Agricultural Sciences directed by Mr. Ralph H. Allee. Together with Ambassador Woodward and Messrs. Strong and Ellyson, point 4 representatives, he then drove to San Jose, visiting a number of representatives of the Government of Costa Rica, including the speaker of the legislature.

Messrs. Andersen, Jensen, and Pope traveled to Panama aboard the Panama Line S. S. *Cristobal*. They left New York on November 15, stopped in Haiti for about 10 hours on November 18, and arrived at Canal Zone on afternoon of November 21. While in Haiti they had luncheon with United States Ambassador Gerald A. Drew and his wife, and drove through an agricultural area near Port-au-Prince with Mr. Petersen, point 4 representative. Also, observed the Haitian School of Agriculture en route.

The official trip of the full group started in Panama on November 22.

Panama

November 22.—Made an hour's flight in early morning on small Air Force plane to get air view of canal and site of new bridge to connect Balboa and Panama City. This was followed by briefing on Canal Zone activities by Gov. W. E. Potter and staff, and discussion on present capacity of canal, future problems, and cost of meeting expanding use of canal.

In afternoon, attended a luncheon at the residence of Ambassador Julian F. Harrington. This was followed by briefing at the Embassy conducted by Ralph Will, director of the ICA Mission. Discussion covered the United States point 4 program and economic and agricultural problems in Panama.

Peru

November 23.—Flew from Panama City to Lima in early morning—a 6-hour flight with one stop at Guayaquil, Ecuador.

In late afternoon, attended reception in committee's honor at Peruvian Chamber of Deputies (counterpart of U. S. House of Repre-

sentatives). Met large number of Peruvian delegates and exchanged views on matters of mutual interest.

In evening, had dinner at home of Sam Coon (former member of United States Congress from Oregon) now Deputy Director of point 4 program in Peru.

November 24.—Took all-day automobile trip through agricultural area south of Lima. Observed cattle, various field crops, and agricultural conditions enroute.

In late afternoon, visited farmers' market in Lima to inspect marketing practices and various types of commodities available.

November 25.—In morning, attended briefing at Embassy covering agricultural trade, market development programs, Public Law 480 activities, and point 4 projects. This was followed by discussions with American businessmen interested in United States-Peruvian trade in agricultural products.

In afternoon, had luncheon at residence of Ambassador Theodore C. Achilles attended by Peruvian officials and Peruvian and American businessmen.

Chile

November 26.—Flew from Lima to Santiago, Chile—a 5-hour flight along the west coast of South America.

In evening, attended a reception given in group's honor by Chamber of Deputies (Chilean House of Representatives) which was also well attended and provided good opportunity for exchange of views between United States Congressmen and their Chilean counterparts.

November 27.—Messrs. Marshall and Andersen flew to Concepcion and then drove to Chillan, about 300 miles to the south of Santiago. They visited several farms and inspected various point 4 activities, including the National Agricultural Training Center and the Chilean-American Cultural Center. They spent the night at Chillan.

Messrs. Jensen and Pope remained in Santiago. They called on Minister of Agriculture, Sr. Mario Astorga, and Secretary of Foreign Investments Committee, Sr. Jose Pinera, in the morning and visited agricultural areas near Santiago in the afternoon.

November 28.—Messrs. Marshall and Andersen flew back to Santiago in the morning. Messrs. Jensen and Pope spent the morning visiting the Anaconda Copper mine property near Santiago, including a large farm run in conjunction therewith.

In the afternoon, the full group attended a luncheon at residence of Ambassador Cecil B. Lyon with Chilean officials.

Following lunch, a visit was made to the Soprole milk plant, the most modern dairy in Chile. Also, met with officials of the National Agricultural Society (Farm Bureau of Chile) in late afternoon.

Had informal dinner at home of agricultural attaché Dr. Samuel H. Work.

November 29.—Had briefing in morning at Embassy on Chilean economic and agricultural problems, United States point 4 program, Chilean-American trade relations, and Public Law 480. Also visited farmers' market in Santiago to observe marketing practices and inspect various commodities available.

Flew from Santiago to Buenos Aires in afternoon—a 3-hour flight, a portion of which was a spectacular flight across the Andes Mountains.

November 30.—Visited with agricultural attaché, Dr. Robert A. Nichols, and toured Buenos Aires and environs.

December 1.—No business scheduled. Attended interesting and well-played polo game in afternoon. Polo is one of the most popular national sports in Argentina, where well-bred horses are still numerous.

December 2.—Drove through agricultural areas northwest of Buenos Aires and visited large farm or estansia. Observed cattle, fields of wheat and corn, and areas infested with Argentina fire ant.

December 3.—Attended briefing at Embassy in morning. Reviewed economic problems and agricultural programs in Argentina. Considered trade relations. Also discussed Ambassador Williard L. Beaulac's proposal to initiate a point 4 program in Argentina, with the first project to be in field of civil aviation.

Met with group of American businessmen living in Argentina at luncheon to discuss United States-Argentina trade problems.

Flew from Buenos Aires to São Paulo, Brazil, in late afternoon—a 4½-hour flight.

BRAZIL

December 4.—In morning, attended briefing at United States consulate relative to conditions in the State of São Paulo, largest commercial and industrial area in Latin America.

Had lunch with American Consul General Richard P. Butrick and several American businessmen. Main point of discussion was proposal to use Public Law 480 funds to enlarge present school for American children in São Paulo.

In afternoon, visited Bi-National Center, a school designed to encourage Brazilians to study English and learn more about the United States.

Had dinner in evening at home of Winfield King, agricultural officer at São Paulo. A number of local Brazilian officials interested in agriculture were in attendance.

December 5.—Drove from São Paulo to Rio de Janeiro, a distance of about 250 miles. This drive took the group through one of the rich agricultural areas of Brazil and provided an opportunity to inspect coffee plantations and citrus farms (fazendas). Point 4 work in the area was also observed, including a model farm being developed by a Brazilian doctor to demonstrate what good agricultural practices can accomplish in that area.

December 6.—Spent the morning at the Embassy in Rio de Janeiro discussing Brazilian economic and agricultural development, future United States-Brazilian trade relationships, and point 4 activities.

Had luncheon in afternoon at residence of Ambassador Ellis O. Briggs, with Brazilian officials and American representatives in attendance.

December 7.—Drove through agricultural area near Rio. Visited a large cattle ranch (Fazenda Indiana) to inspect an outstanding herd of Brazilian Zebu cattle. Also observed the National Rural University of Brazil en route.

Visited the farmers' market in Rio in late afternoon.

December 8.—No official business scheduled.

Took a trip to Corcovado, a 3,000-foot mountain near Rio, with a 200-foot statue of Christ atop, one of the outstanding attractions in Brazil.

Made overnight flight from Rio to Caracas, Venezuela. This is a 10-hour ride over the heart of Brazil and across the Amazon River country.

Venezuela

December 9.—Attended briefing at Embassy on economic conditions, agriculture, and trade relationships in morning. There is no Public Law 480 program here. All United States imports are purchased with dollars.

Had luncheon at residence of Ambassador Dempster McIntosh, with Venezuelan officials and American businessmen in attendance.

Made courtesy call on Minister of Agriculture Armando Tamayo Suarez, in late afternoon.

December 10.—Drove through agricultural area west of Caracas, including visit to livestock experiment station, sugar research laboratory, commercial horticultural nursery and large sugar mill (Vollmer sugar mill).

December 11.—Paid courtesy call on Minister of Foreign Affairs in morning.

In afternoon, attended luncheon given by Venezuelan-American Chamber of Commerce.

(Mr. Jensen returned directly to Washington from Caracas and did not accompany group to Cuba.)

Cuba

December 12.—Flew from Caracas to Havana, Cuba—a 3½-hour flight across the Caribbean.

Inspected Cuban civil aviation project at Havana airport in which United States point 4 personnel participating.

Met with Ambassador Earl E. T. Smith briefly on political and economic conditions in Cuba.

December 13.—Attended briefing at Embassy in morning on Cuban agriculture, United States point 4 program, and agricultural trade relationships.

In afternoon, had luncheon at Ambassador's residence, attended by various Cuban officials. Also, visited Cuban Agricultural Experiment Station on outskirts of Havana. United States point 4 technicians are participating in this program.

December 14.—Drove through agricultural areas south of Havana. Visited ricefields and observed harvesting operations. Visited sugar plantations and large sugar mill (Central Providencia).

December 15.—Mr. Marshall returned to Minneapolis via New Orleans. Messrs. Andersen and Pope returned to Washington via Miami.

Exhibit B

Panama

The Republic of Panama covers an area of 34,000 square miles, roughly the size of the State of Maine. It is 480 miles long from east to west and varies in width from 30 to 130 miles. The topogra-

phy is largely mountainous, two main ranges forming the backbone of the isthmus, with coastal lowlands on both sides. The Canal Zone is a 10-mile strip bisecting Panama into 2 nearly equal parts. The mean relative humidity is approximately 80 percent with temperatures averaging near 80° F. The Atlantic coast receives from 130 to 140 inches of rainfall annually. On the Pacific side, rainfall averages from 60 to 70 inches annually, while the interior receives 90 to 95 inches per year. There is a distinct dry season on the Pacific coast, usually beginning mid-December and ending about the last of April. On the Atlantic coast there is less rainfall during this same period, but no distinct dry season.

The 1957 population of Panama was approximately 959,800, about 66 percent of which represents rural population. On the Pacific side, Panama City, the capital, is the largest city with 221,000 inhabitants. Colon, which is on the Atlantic end of the canal, ranks second with 58,000 people. The Panama Canal Zone's civilian popuation in 1955 was 40,000.

Panama is a centralized democracy. The present constitution, adopted in 1946, provides for universal suffrage and organizes the Government into executive, legislative, and judicial branches. There are guarantees of liberties similar to the first 10 amendments to the Constitution of the United States. The President is elected by direct popular vote for a 4-year term, together with a first and second vice president. The President appoints the Cabinet of 10 ministers. The nine Provincial governments and all municipal mayors serve at his pleasure. The legislative branch consists of a unicameral national assembly which currently has 53 members. The Supreme Court is composed of 10 magistrates appointed on a staggered basis for 14-year terms.

The economy

Panama is an economically underdeveloped country. Large groups of people in substantial areas of the country contribute very little to the aggregate economic activity, derive very little benefit from this activity, and have only meager resources. Roads are poor and educational and health facilities are inadequate.

At the other extreme, Panama has concentrations of wealth, particularly in Panama City. Traditionally, it is a trading nation. Goods and services supplied to the Panama Canal Company provide a major source of income to the Republic. The tourist trade primarily related to canal transits is a means of livelihood for many Panamanians. The Colon free trade zone is a growing and potentially important factor in the country's commercial life.

The national income in 1954 has been estimated at $221 million, or $237 per capita. More than half the gainfully employed persons are engaged in some form of agriculture. Only 40 percent are not self-employed, and of this group approximately half are on the payrolls of three organizations: The Panamanian Government, the Panama Canal Company and Canal Zone Government and the Chiriqui Land Co., a subsidiary of the United Fruit Co.

Approximately 34 percent of Panama's gross national product is derived from agriculture, forestry, and fishing. In agriculture, the small farmer and small cattleman are in the majority. The squatter, who forms a large portion of the total agricultural population, works

a plot of 3 to 5 hectares (approximately 8 to 12 acres) for several years before moving on to a new area. His only implement is the machete. He has neither assets nor obligations. He can discontinue the production of any crop when it ceases to be to his advantage and may or may not shift to another.

The most important crops are bananas and cacao, both of which are exported. Considerable progress has been made in diversified farming as a result of an expanding market in the Canal Zone and point 4 assistance from the United States. In 1953, Panama became self-sufficient in rice, a product previously imported. Coffee cultivation has been increasing and near self-sufficiency has been attained, with small quantities marketed in the Canal Zone. Sugar production now meets national needs.

Banana production has increased notably in recent years following resumption of production in the Bocas del Toro area, which was nonproductive for some 20 years because of "Panama disease." The cattle industry has developed rapidly over the last 5 years. In 1955, there was an export surplus of beef cattle for the first time in the Republic's history. The dairy herds are being developed to meet the expanding needs for dried milk and fresh milk, both in Panama and in the Canal Zone. Hog and poultry raising are also increasing.

Foreign trade

In 1956, Panama's imports were valued at $83,120,176 and the recorded exports amounted to $17,168,624, not including direct sales to the Canal Zone. The United States is Panama's principal supplier as well as its best customer.

United States exports of agricultural products to Panama have averaged about $9 million per year during the past 10 years. The United States is the principal supplier of apples, cheese, wheat flour, fruit juices, grapes, hog lard, malt, margarine and shortening, dried milk, oats, onions, potatoes, pears, and corn.

Imports of agricultural products from Panama to the United States increased to around $15 million in 1956. The principal item involved is bananas, for which imports increased from $3 million in 1947 to over $11 million in 1956.

Some slight expansion in trade with Panama appear possible in the future, unless a serious economic crisis develops in that country. The United States is a "natural" customer of Panama since it does not produce either bananas or cacao, two of the principal products of Panama. For many years, the United States has taken approximately 100 percent of all exports from Panama of these 2 commodities. However, Panama has consistently had a deficit trade balance with the United States, which makes it difficult for her to finance a further increase in imports.

Peru

The total area of Peru is 482,258 square miles, approximately the combined area of Texas, New Mexico, and Arizona. Most of Peru is desert, mountain, or jungle, and arable land is severely limited. In 1956, about 50 percent of the country was in forests. An estimated 17 million acres of uncultivated grasslands in the high sierra support most of the sheep, cattle, llamas, and alpacas.

Peru is essentially a tropical agricultural country, with probably 65 percent of the population dependent on crops and livestock for their livelihood. Because it is comprised of an arid and rugged coast, an extensive and rough Andean area, and an immense leached rain forest area to the east, only about 2 percent of its land area is in cultivation. Lands now in cultivation are used intensively. Commercial agriculture is centered in the irrigated coastal valleys where large haciendas and commercial companies account for much of the agricultural production. There are also smaller holdings near the larger towns where more diversified farming is practiced. The agricultural population here generally lives on the land.

In the sierra, the prevailing pattern among the Indian population is subsistence farming. The farms are mostly medium or small sized and communal holdings are common. In these, the operator is allotted land for farming, and livestock occupy a common range. The tendency is to live in small villages from which the farm operator goes to tend his allotted land.

The total population of Peru was estimated at 9.7 million people in 1956. The people are distributed geographically as follows: Coastal region, 30 percent; highlands area, 60 percent; and eastern slope of Andes and Amazonas, 10 percent. The inhabitants of the coastal area are the principal consumers. The people of the other areas are on a subsistence basis and are minor consumers of imported food products. The per capita income runs about $120 per year.

The economy

Agriculture is the primary basis of the internal Peruvian economy and products of agricultural origin normally constitute more than 50 percent of the annual exports. The principal agricultural commodities are cotton (27 percent of total exports), sugar (11 percent), coffee (3 percent), and alpaca hair (2 percent). The bulk of Peru's nonagricultural exports, which account for at least 40 percent of the total exports, are mineral products such as lead, copper, zinc, iron ore, and petroleum.

Peru suffered serious balance of payment problems in 1955, but due to gains in export earnings, long-term capital inflow and substantial amounts of foreign credit granted by the United States for project purposes the situation improved temporarily, but has recently considerably worsened.

The present regime, which came into power on July 28, 1956, has announced many new policies and initiated some. These include a plan to bring about national sufficiency in the production of wheat, rice, and livestock products. However, due mainly to the limited funds, a recent drought and the continuance of price controls, this plan has not been successful. Also, greater attention is being paid to improvements in marketing facilities and practices, in the hope of reducing the middlemen's margin. The administration has expressed a belief that the gradual removal of price ceilings on foodstuffs will provide an incentive to greater production and lend greater stabilization to food supplies and prices.

The administration also has announced a broad program aimed at improving living standards among low-income groups, including a program of agrarian reform and the solution of problems relating to land tenure. Its program of rural reform and land tenure, while

largely inactive to date, has been important, not only in openly recognizing these problems, but in the establishment of a capable non-Government commission to study and deal with them. Such measures should lead to economic development and increased trade.

Peru's land tenure problems stem from a heavy population pressure in relation to a very restricted arable area and a practice of continuous farm subdivision of fragmentation. This tendency to break up small parcels of land among sons and daughters has been encouraged by Peruvian laws and by a deep-rooted general desire for farmland ownership.

Foreign trade

The United States is Peru's principal trading partner, supplying more than 50 percent of total Peruvian imports and purchasing about 36 percent of Peru's total exports. In 1956, Peru's total imports from the United States amounted to $159 million. Of this amount 8.5 percent, or $13.3 million, was in agricultural products—mostly grains, fats and oils, and dairy products.

During the same year, Peruvian exports to the United States were valued at $132 million, of which 20 percent or $27 million were agricultural goods. The main agricultural items imported by the United States were wool, coffee, sugar, cotton (extra long staple), and hides and skins.

Although trade with the United States is by far the most important, trade with Europe, Latin America, and Asia is important and increasing. In 1956, Peru purchased nearly $27 million of its imports from West Germany, or 9 percent of the total. Germany ranks next to the United States as a supplier of Peruvian imports. England serves as Peru's next largest market, an important purchaser of Peruvian cotton.

Because of the competitive situation, Canada and Argentina have taken an increasingly large share of the Peruvian market for wheat, and Argentina and Holland have moved into the lard market. Argentina has dominated the beef market for years. On the other hand, the United States has increased its Peruvian market for dairy products, cottonseed oil, tallow, deciduous fruits. Also, since 1952, it has increased its shipments of poultry to Peru. There may be some opportunity for increased sales to Peru of poultry and dried milk. Also more careful selection of dairy animals exported from the United States should increase the Peruvian market for our breeding cattle.

Peru's future as a market for United States products appears to lie largely in the development of its agriculture, since it is in this field that her economic strength and trade should develop. Other important factors also are the extent to which the United States limits future imports of Peruvian minerals, the extent to which the world market remains good for Peru's cotton and sugar, and the extent to which freight costs from the United States can be reduced.

While there does not appear to be an immediate possibility of significant increase in agricultural trade with Peru, the situation should be watched closely. Peru has large natural resources, which have not been developed because of lack of capital and transportation difficulties. When these resources are developed, since the Peruvian people are friendly to the United States, no doubt the trade between the two countries will be much improved.

Chile

Chile covers about 286,000 square miles (about the size of California, Oregon, and half of Washington). Around 183 million acres are located on the mainland, and the balance is located on offshore areas, including Tierra del Fuego to the south. Approximately 40 percent of the area is agricultural, 15 percent in cropland, and the balance in pastureland. Approximately 29 percent of the area is in forests.

Chile's climate is of the Mediterranean type, and somewhat similar to California. The winters are mild except at higher elevations and in the south. Rainfall varies considerably throughout the country. In the north is the great Atacama desert, rich in minerals, but with little or no rainfall. Approximately 3,000 miles to the south, precipitation may reach 200 inches per year. The average around Santiago and the heart of the country is about 35 inches per year.

The actual volume of rainfall is deceptive when it comes to crop production, however, since the effective rainfall, due to the dry atmosphere, is materially reduced. This gives rise to the need for irrigation, and is one of the problems of chief concern to the Chilean Government. Irrigation projects, new and improved, are bringing added water to around 40,000 hectares (100,000 acres) per year.

Since 1950, Chile's population has increased from slightly over 5 million to an estimated 6.7 million in 1955. It is now almost 7 million people. Population growth has been running around 2.5 percent annually in recent years. The 1955 agricultural census showed 638,000 people actively working on farms.

Small farmers comprise about 42 percent of agricultural activity. In effect, these are subsistence farmers. Farms average in size from 50 to 200 hectares (125 to 500 acres), and all produce goes to market. Holdings of over 200 hectares comprise about 14 percent of the properties.

Agricultural production methods in Chile still range from the near primitive oxpower to fuller mechanized operations. A considerable area of dryland wheat on steep slopes is still seeded and harvested by hand.

Chile is a very democratic country. The Government of Chile is a democracy similar to that of the United States. It includes three branches: The executive, legislative, and judicial. The legislative branch consists of the National Congress, which includes a Senate and Chamber of Deputies.

The economy

Per capita income in Chile has never been very large. It rose from $308 per capita in 1950 to around $326 in 1956. However, due to serious inflation throughout the country, the cost of living has increased at a much more rapid rate.

In the last few years, the gross national product has grown at a much lesser rate than the population, despite many natural resources, and the world's largest reserves of copper. Distribution of income has also been increasingly uneven. A small segment of the population has always had access to the larger income. The great mass of the population has suffered most during the inflation. During the period 1940–53, wage earners increased their real per capita income by only 7 percent, while salaried workers increased their income by 46 percent, self-

employed by 60 percent, and property owners by 64 percent. At the same time, capital formation has lagged badly, averaging only some 10 percent of gross national product. It is estimated that an investment of 17 percent of gross national product is necessary to achieve a 2-percent increase in the per capita real income.

The long record of inflation in Chile has made the task of saving and borrowing for investment and of stabilizing the economy difficult, not only economically but politically and socially as well. In the past 4 years, the Chilean Government has taken some important steps in the direction of stimulating investment and controlling inflation.

In 1956, the Government initiated a program of inflation control. The link between wages and prices was broken and strict monetary restrictions were applied. At the same time, most of the controls on foreign exchange and imports were eliminated, and prices were gradually freed in an effort to encourage production. During the first year of the program, the cost-of-living increase was kept to 38 percent, less than half that of the proceeding year. It now seems likely that the cost-of-living rise for 1957 can be kept to around 25 percent.

The situation became particularly acute in 1957, since, by midyear, the price of copper had fallen to an average of about 28 cents per pound, 7 cents below the price on which the budget for the year was calculated. The resulting loss to Chile in foreign exchange has been estimated at $60 million and the loss in fiscal revenues at $50 million.

Chile supplied most of her domestic needs and was an exporter of wheat and other basic commodities prior to World War II. During the war years, 1940–43, agriculture contributed on an average over 18 percent of the national income. Since then the percentage has been decreasing. It appears that the reason for this is the emphasis given to industrial expansion and the policy of the Government to keep farm prices low to provide cheap food for the people. As a result, farmers lacked a price incentive which would encourage production. In addition, the agrarian tax system has been such that with existing prices, some large shareholders preferred not to farm, or to farm on a minimum basis, in order to avoid higher taxes. Agriculture, therefore, has not advanced as it should have, and Chile now finds it necessary to import many basic food commodities.

Since 1956 Chile has gradually been readjusting her agricultural economy to attain domestic self-sufficiency, to increase exports, and to eliminate price controls so as to balance the agricultural economy in relation to world markets. Though production suffered severely from last year's drought, the 1957 harvest indicates considerable increase in agricultural production.

Foreign trade

Chile's most important export product, copper, accounts for about 50 percent of the foreign exchange earned. Nitrates run second in importance. In addition she exports a limited quantity of lumber, iron ore, chemicals, and some agricultural products, such as fruits and vegetables which are in demand in the Northern Hemisphere because of the reversed growing seasons.

Since Chile does not produce enough agricultural products to provide for its growing population, it must import cotton and such foodstuffs as wheat, beef, sugar, coffee, and tea. In addition it must import a wide variety of industrial products, including fuel, agricul-

tural and industrial machinery, machine tools, transportation equipment, and manufactured goods.

The United States traditionally has been Chile's principal supplier and its No. 1 customer. With respect to agricultural products, United States exports to Chile exceed imports from Chile. In 1954 United States exports of agricultural products to Chile totaled $11.8 million, whereas imports of agricultural products from Chile were only $2.6 million. In 1955 United States agricultural exports to Chile were $12.9 million, while imports from Chile were $4.5 million. In 1956 United States agricultural exports to Chile were $26.5 million, while imports from Chile ran $4 million.

Trade relations with the United States are generally good. A matter of some importance now overhanging United States-Chilean trade is the United States tariff on copper. The duty, amounting to 2 cents per pound, has been suspended until June 30, 1958. But the suspension legislation requires that the duty be reimposed in the event the Connecticut Valley price averages 24 cents or less per pound for a period of 1 month. Upon expiration of this suspension legislation next June, the duty will be 1.7 cents per pound, the 2-cent duty having been reduced 15 percent as permitted under the Trade Agreements Extension Act of 1955. Proposals of the American Mining Congress that the duty on copper be raised from 2 to 4 cents have given rise to considerable concern in Chile.

Chile has active bilateral trade agreements with Germany, Argentina, Brazil, Spain, Bolivia, and Ecuador. It has favorable trade balances with all of these countries except Germany. Chile's greatest trading activity among the countries with which it has agreements is with Argentina. According to the terms of an agreement signed between the 2 countries, in 1957, trade may be carried on freely between the 2 countries in all commodities. As a result, the United States has become a residual supplier of a number of important agricultural commodities, notably wheat. Chile's principal purchases from Argentina are wheat and livestock and her principal items of export to Argentina are copper, coal, and lumber. On November 1, 1957, Chile had a favorable balance of trade with Argentina of between 8 and 9 million dollars.

Chile is one of the principal countries interested in the establishment of multilateral trade and payments arrangements in Latin America, especially in southern South America, and is also the host country for the United Nations Economic Commission for Latin America (ECLA), which has been one of the major proponents of such developments. Chile has participated energetically in ECLA's Trade Committee in fostering the establishment of a common market and may be expected to be one of the first countries to participate in any definite scheme. While Chile approves in principle the establishment of the European common market, it views with concern the practical possibility that the association of dependent overseas territories in the European common market will have an adverse affect on Chile's trade in copper, nitrates, and agricultural products with the European members of the European common market. Chile also believes that Latin America needs to establish its own preferential trading area in order to stimulate economic development, and as a balance to the existing large trading blocs of the British Commonwealth, the Soviet bloc,

the European common market, and the dollar area, and the possible establishment of similar preferential trading areas in the East, Near East, and Africa.

Efforts are being made by United States representatives in Chile to obtain a larger share of the market for United States farm produce on dollar basis. The difficulty is that Chile's historic supplier is Argentina, a relationship dating from 1933. Moreover, the transportation differential to Chilean ports from the United States works against the increased purchase of United States products. Chileans would like to buy more products that originate on United States farms. However, until the economy stabilizes and the Nation's productivity has increased, it may be difficult to move more United States produce into Chile.

Argentina

Argentina covers an area of over 1 million square miles, approximately equivalent in size to that portion of the United States, which lies east of the Mississippi River. Its climate is diversified, ranging from the subtropical areas in the north which touch Brazil, Paraguay, and Bolivia, to the bleak Patagonia Steppe and rainy Tierra del Fuego in the south, and from the arid Indian Plateau in the west to the fertile farm and grazing lands in the east central portion of the country. The last-named area, the Pampa, comprises the productive agricultural heart of Argentina.

The population of Argentina is now approximately 20 million. The basic racial stock is Spanish, with a very small mixture of Indian blood. Immigration has played a large role in the growth of the country, and Argentina, like the United States, is an ethnic melting pot. Besides the basic Spanish racial strain, there is a large proportion of Italian blood. Other groups whose contribution to the composition of Argentina is substantial are Arabs, Jews, Germans, Slavs, and the English, Irish, Welsh, and Scotch. The Anglo-Argentine group has an influence on the economic social life of the country in excess of its actual numbers. The majority of Argentines are Roman Catholics. The literacy rate for the country is 86 percent, the highest in Latin America.

Argentina has a federal form of government, with executive, legislative, and judicial branches on both the national and provincial levels. The Argentine Constitution of 1853, which the present government decreed back in effect a year ago to replace the substantially reformed version issued under the Peron government in 1949, is to a sizable degree modeled on that of the United States. The present government is a provisional one, having overthrown by revolutionary action, during September of 1955, the previous regime headed by Gen. Juan de Peron. There is no congress in the present de facto judicial situation, and laws are promulgated by executive decree. The provisional government has, however, made use of an advisory body, composed of representatives from the major democratic political parties, most of which have given it support. The Argentine judicial system, with widespread personnel changes since the revolution, is functioning. The provisional government held elections to choose representatives to a national convention to re-form the 1853 constitution in July 1957. General elections for national, provincial, and

municipal authorities will be held in February 1958. Power is expected to be turned over to the elective government on May 1, 1958.

The economy

The economy of Argentina continues to be rooted in agriculture and stock raising, which account for the greatest part of Argentine export earnings. Meat, grains, wool, and vegetable oils are the principal products shipped abroad.

The provisional government has been faced with a complex of economic problems, probably as difficult as ever confronted Argentina. Several major sectors of agriculture have shown a downward trend for a number of years and crop production has suffered in recent years due to bad weather. Also there is a foreign exchange deficit and capital formation has been neglected until productivty of the economy generally is seriously impaired. The balance-of-payments deficit in 1955 amounted to $185 million, and foreign indebtedness reached $757 million with gold and currency reserves only $450 million.

While somewhat neglected during the late 1940's and early 1950's, renewed emphasis is currently being given to agriculture and stock raising as basic to the country's economic well-being; and as a means of increasing her foreign-exchange balances. It will be difficult to expand agricultural production significantly, however, due to poor transportation facilities, lack of agricultural credit, decreased soil fertility, inadequate farm storage facilities, and lack of advanced technology.

Continuance of the industrial development which has marked Argentina's history since World War II is also another goal of the nation's authorities. Argentina's current inflationary situation is a source of concern to the Government, and its program for economic recovery has run into many obstacles. Particularly critical areas are the transportation, petoleum, and electrical energy fields.

Foreign trade

While Argentina has consistently imported much more from the United States than has the United States imported from Argentina, by far the major portion of this has been in other than agricultural products. The only significant agricultural import from the United States in recent years has been cottonseed oil, which has increased from $3.5 million in 1954 to nearly $23 million in 1956. The abnormal increase in 1956 was due to a failure in oil crops brought on by drought. On the other hand, the import of casein, canned and corned beef, and wool, from Argentina to the United States has been substantial during the past 10 years.

The possibility of increased imports to Argentina of United States agricultural commodities is very slight. Argentina produces in quantity most of the same commodities that are grown in the United States, and, therefore, has no need for our products. As a matter of fact, she is in direct competition with the United States in world markets for meat, meat products, and wheat. Also, Argentina is in a very difficult foreign-exchange position, particularly with the United States, and has been forced to impose tight restrictions on imports from the dollar area.

Brazil

Brazil covers an area of 3,286,000 square miles, approximately the size of the United States plus the area of Texas. It occupies almost half of the land area of South America with an Atlantic coastline of over 4,500 miles in length.

The Amazon region of northern Brazil is a sparsely settled, low tropical valley forming the basin of the Amazon River which flows eastward from the Peruvian Andes through dense equatorial forests to the Atlantic. The Amazon River is navigable for oceangoing vessels for more than 2,300 miles. Throughout this basin the climate is uniformally humid and hot with an average of 79 inches of rain per year. Its wealth is derived from rubber, timber, brazilnuts, oilseeds, jute, and pepper.

The second geographical division is the Brazilian northeast including the State of Bahia. Much of this area is semiarid scrubland where irrigation is required to grow cacao, cotton, sugarcane, and tobacco. The third area, the central and southern coasts and uplands, is the virtual heart of Brazil. Here are to be found the most fertile lands, the great coffee fazendes, the cotton, fruits, and livestock, that form the basis of the country's economy. Here also are the principal mineral deposits, manufacturing centers and the bulk of the population, including the cities of Rio de Janeiro and São Paulo.

The population of Brazil is approximately 62 million, and increasing at a rate of over 1 million per year. It is estimated that about 60 percent of the population are white, and the remainder are Negro and Indian mixtures. Most of the Negroes live in the north and northeast while the south has remained predominantly white. The 2 largest cities, Rio de Janeiro and São Paulo, each have over 3 million residents.

The Brazilian Constitution of 1946 provides for a government which is very similar to our own. The Republic is composed of a federal district, 21 states, and 4 territories. The states and the federal district each elect 3 Senators to serve for 8 years in the Senate. The Members of the Chamber of Deputies are elected by proportional representation on the basis of population and serve for 4 years. The President is directly elected for a 5-year term and may not succeed himself. Basic rights and freedoms of citizens are guaranteed. There are 3 major political parties in Brazil, and 10 minor parties whose strength is more often regional than national. Party allegiance is much looser than in the United States and there is frequent crossing of party lines. The Communist Party has been outlawed by the Government, but it carries on active and clandestine operations.

The economy

Brazil, with a population exceeding 60 million and an area larger than that of the United States, is economically the most important country in Latin America. Industrial development has expanded greatly in recent years, though Brazil remains basically an agricultural nation.

The country has excellent long-term economic prospects, but is now passing through a difficult period. She has suffered from inflation in recent years, the tempo in 1956 exceeding 25 percent and continuing

during the first three quarters of 1957 at an annual rate of approximately 15 percent. Leading causes have been governmental deficits and credit expansion to support the tremendous industrial development of recent years. Successive rounds of price and wage increases also have provided inflationary momentum.

Brazil's international payments are under considerable pressure, and severe restrictions have had to be imposed on foreign exchange to cover general commercial imports. In 1956, Brazil's payments problem eased somewhat because of a favorable export balance of $250 million for the year. However, 1957 has been less favorable, and the balance of payments will probably show a substantial deficit.

United States investments in Brazil exceed $1 billion, chiefly in public utilities and manufacturing. There has been a substantial increase in the number of American and other foreign firms entering Brazil in the last 2 years.

The city of São Paulo has been growing tremendously in recent years and is now considered to be the industrial center of South America. While Brazil's economic position is somewhat vulnerable at the present time due to her dependence on coffee exports, the situation should improve in the future as her industrial potential is developed.

Brazil operates largely under a free enterprise system and encourages the investment of private capital from outside the country. It is significant to note that there are over 1,400 banks in the city of São Paulo and that over $700 million of United States capital has been centered there. In addition, there are approximately 50,000 factories in the São Paulo area and there are about 1,300 members of the American Chamber of Commerce in São Paulo representing that of many different commercial organizations.

The per capita income in Brazil in 1953 was around $200 per year. In 1954, Brazil had the highest rate of increase in per capita income since the war, about 5 percent. In 1955 and 1956, however, national income increased at only the same rate as population, about 2 percent. Present per capita income is estimated at about $220.

Brazil is ambitious to become a major power in world affairs and is consequently very active in international organizations, in which its delegates "cooperate closely with the United States." The Government is also making efforts to develop the Amazon Basin, raise the level of its agricultural production, and eradicate disease within the limits of its capabilities.

With the exception of domestic air services, transportation in Brazil is very poor. Ambitious plans for improving the situation have been prepared, however, and progress is being made. The railroads, largely Government-owned and operated are antiquated, inefficient, and overstaffed. Maritime services which are principally Government-owned and operated also fall far short of meeting urgent and growing needs. The Brazilian purchase in 1956 of 12 coastal freighters from the United States Reserve Fleet has resulted in some improvement. Brazil's highway network is seriously inadequate, particularly in paved roads, but a very substantial program of construction and repair is underway.

Electric power supply, though improved lately in the Rio de Janeiro and São Paulo areas, has failed to meet rapidly growing needs. American and other foreign power companies operating in

Brazil are reportedly affected by low rates, some difficulties on remittances of profits, and shortages of local capital for further development.

Foreign trade

Coffee exports earn over two-thirds of Brazil's currency income, and over 80 percent of her earned dollars. The country's economic welfare is tied quite closely to the fluctuating world market for that commodity. Exports, which were high during 1956, fell off during the early months of 1957, resulting in a serious deterioration of Brazil's foreign exchange reserves. In recent months coffee exports have increased to normal levels.

Effective July 1, 1957, the Brazilian Government initiated a new coffee export program. The exchange rate was fixed to favor exports of higher quality coffees and to eliminate "under invoicing" which deprived official channels of a large part of the foreign exchange earnings of coffee. Another major feature of the program was the floor placed under export prices, with the Government undertaking to buy coffee from exporters at such floor prices if necessay. For a time the Government bought coffee under this program.

In October, the Brazilian Government signed a coffee marketing agreement in Mexico City with other Latin American coffee-producing countries under which the signing countries agreed to limit their exports of coffee. Brazil's obligation is to withhold at least 20 percent of her exports between October 1, 1957, and June 30, 1958. Prices in the world market rose after the signing of this agreement and are currently above the Government's support level.

Total exports in 1956 were just under $1.5 billion, of which 70 percent was coffee and the remainder chiefly cacao and cotton. Total imports were about $1.25 billion.

During that year, Brazil's payments problems eased somewhat because of a favorable balance of trade of approximately $250 million. However, 1957 has been less favorable and the payments balance will probably show a substantial deficit. To assist in meeting the demands on its exchange reserves, Brazil recently drew $37.5 million from the International Monitary Fund.

The United States is the chief source of Brazil's imports, generally supplying about 25 percent. Wheat and deciduous fruit are the main agricultural imports at present.

Brazil and the United States are "natural" trading partners. Over 50 percent of Brazil's coffee exports, which earn over two-thirds of her foreign currency income, go to the United States. Since this commodity is not produced in the United States, and large quantities are used here, this trade should continue. Further, except for cotton, the United States is not in competition in world markets with Brazil's other major export crops. And for cotton, it is estimated by our agricultural office in São Paulo that Brazil will be a net importer in 5 years.

Brazil offers the largest potential Latin American market for United States agricultural products. This will not be realized in the next few years, however, because of present economic problems resulting from serious inflationary pressures. In view of the tremendous undeveloped mineral, agricultural, and industrial resources, however, this potential should materialize during the next 5 to 10 years.

Venezuela

The total area of Venezuela is 352,170 square miles, nearly 1½ times that of the State of Texas. The estimated population of Venezuela for the year 1955, the latest date for which information is available, was around 5.8 million. About 50 percent of the people live on the land. The estimated land use in 1949 was 53 percent in forests; 44.1 percent mountainous; 2 percent in lakes, rivers, and urban areas; and 1 percent cultivated.

There are many large holdings with a large percentage of absentee owners, but the most common type is the small subsistence farm. The larger plantations are used for cattle raising and commercial production of crops. Farm mechanization is in its preliminary stages. Since labor is cheap and the rainfall pattern is unfavorable for the maximum use of machinery, mechanization is expanding slowly. The most common tools are still the machete and the hoe. Most mechanization is confined to the central part of the country in the northern highlands.

The economy

The economy of Venezuela is in excellent condition. It is closely tied to the economy of the United States. About 70 percent of its income comes from petroleum and 95 percent of all of its exports are petroleum and petroleum products. Venezuela also has considerable reserves of iron ore and, largely through the efforts of several United States companies, the production and export of iron ore is just beginning.

The Venezuelan Government's economic and financial policy is to welcome the investment of foreign capital in new industrial and agricultural ventures. The result has been the growth of a sound economy based on a free enterprise system which has produced the highest standard of living of any of the Latin American countries. Per capita income during 1955 was approximately $660. It also has provided adequate foreign exchange to permit Venezuela to import adequate quantities of agricultural and industrial products to meet its needs.

The principal crops produced in Venezuela are sugar, rice, corn, coffee, and cacao. Local production of basic foods is estimated at 85 percent of consumption. The only basic food commodities which need to be imported in quantity are wheat flour, vegetable oils, preserved milk, oats, eggs, malted barley, fresh fruits, and preserved food.

Venezuela's overall agricultural policy is directed toward self-sufficiency and diversification of the economy to reduce the country's dependence on its petroleum industry. To carry out its policy, the Government affords extensive support to both new and well-established production enterprises. Coupled with this policy is one to encourage the processing within the country of all agricultural products consumed in substantial quantities.

Foreign trade

Venezuela is the second largest United States market for agricultural products in Latin America, one of the best on a per capita basis, and all sales are for dollars. In 1956, Venezuela took about 77 per-

cent of all of United States dried whole milk exports, 43 percent of the shell-egg exports, 12 percent of wheat flour, and 33 percent of the oatmeal. Venezuela is our best world customer for dried whole milk and shell-eggs. The largest competitors of the United States for the Venezuelan market for agricultural products are Canada, the Netherlands, Great Britain, and Mexico.

Total imports of all commodities into Venezuela in 1956 were valued at $1 billion. About one-fourth of these items could be classified as agricultural. Total United States exports to Venezuela in 1956 were valued at over $646 million, about $72.5 million of which was for agricultural products, including wool and textiles.

Exports of agricultural products from Venezuela comprise a small share of the total. The only farm exports of any importance are coffee and cacao and the United States is Venezuela's best market for both. Her principal export item is petroleum and its derivatives, which account for about 95 percent of her export income. The United States takes about 25 percent of the crude oil exports and over 40 percent of the exports of refined products.

There is some opportunity for increased imports of United States agricultural commodities into Venezuela, since the United States is the principal buyer of Venezuelan exports, and there will always be a substantial market in the United States for Venezuelan petroleum, coffee, and cacao. Also, Venezuela enjoys a favorable balance of trade with the United States which should continue. Further, the two countries are not competitive in agricultural items and it is not likely that Venezuela will ever be a large producer of the items which it imports from the United States. In addition, the people of Venezuela are extremely friendly to the United States and there are large United States investments in that country.

One significant factor has developed recently which could temporarily affect this trade relationship somewhat. The recent Presidential request to restrict foreign petroleum imports by 10 percent has created some concern in Venezuela, and could result in a small temporary reduction in United States imports. Satisfactory trade conditions should prevail, however, on a long-range basis.

Cuba

Cuba is approximately the size of Pennsylvania. The total land area is slightly more than 44,000 square miles, of which 80 percent is in farms. An estimated 18 percent is cultivated, 11 in forests, 34 in pastures, and 15 is not cultivatable.

Agriculture is generally organized on an extensive basis, with most of the farms highly specialized, as, for example, sugar centrals, producers of bananas for export, coffee plantations, and cattle ranches.

Sugar is by far the most important crop. Tobacco is the principal cash crop in certain areas and there are many farms specializing in production of pineapples and winter vegetables for export. The principal food crops are corn, beans, sweetpotatoes, potatoes, yams, yuca, rice, and bananas and plantains for local consumption.

The estimated population of Cuba is 5.8 million, about 70 percent of which is rural.

The economy

The people of Cuba enjoy one of the highest standards of living in Latin America. Per capita income was $335 in 1956. All signs point toward continued economic growth, provided reasonably stable political conditions prevail.

The gross national product for 1956 reached an alltime high of $2.5 billion, an increase of 10 percent over 1955. Current developments, particularly with regard to sugar, still the backbone of the Cuban economy, indicate a further increase in the gross national product in 1957 to about $3 billion with no apparent reduction in 1958. This would increase the per capita income to close to $500.

Other factors which point toward a very prosperous year in 1958 are the diversification of the economy, both in agriculture and in industry, and an expanding rate of investment of both foreign and domestic capital. The continuation of the building boom, a steady expansion in mineral production, increasing Government revenues, and a substantial improvement in tourism also are important factors.

The Government controls almost every part of the sugar industry, including production, marketing, and labor. It also intervenes in the marketing for other crops, including tobacco. To encourage diversifications of agriculture and increased food production, minimum prices are fixed for corn, rice, and meat. Maximum prices to consumers have also been established. Cuba grants preferential treatment to many United States products and receives preference on many of its products in the United States market.

Foreign trade

Cuba is the largest importer of United States farm products in Latin America, buying 23 percent of all items shipped to Central and South America. It is the most important market for our butter, bacon, hams and shoulders, filberts, onions, chickpeas, dried peas, and many canned fruits, and vegetables. In most years, Cuba is our first rice market and our second most important market for lard. It is also a significant market for United States exports of processed milk, deciduous fruits, dried beans, potatoes, etc. In 1956, Cuba's purchases of United States farm products totaled about $124 million.

Although Cuba has been expanding its sales to other countries, the United States continued to be the principal market for Cuban products, taking about 60 percent of the total and about 50 percent of all Cuban sugar production. Since World War II, trade balances with the United States and the rest of the Western Hemisphere have become adverse. Foreign-exchange balances with much of the rest of the world have become highly favorable to Cuba, however, which has enabled her to meet trade deficits with the United States.

Cuban demand for American products should continue to be active. Cuban buying habits, ease of communications, prompt deliveries, and excellent transportation, give United States merchandise a competitive advantage in the Cuban market.

SPECIAL STUDY ON SUBSIDIES

(Compiled by Representative Fred Marshall, Minnesota)

January 1957

Foreword

Billions of dollars have left the farm in recent years to the advantage of others beyond the farm gate. Farmers have been producing more each year, but they are receiving less net income now than they did when volume was smaller. The increase in output over the last several years has, in effect, been given away by the farmer.

Yet, nearly every time the farmer as an individual, or through group action, lifts his voice to propose some remedy for inequalities that have lasted too long, up goes the cry of subsidy. In many cases the person or group which points the accusing finger at aids received by agriculture is making out very well with a subsidy arrangement of his own.

The subsidy is as ancient as time. It has an honorable purpose and tradition. This does not ignore or excuse the fact that the subsidy principle has suffered from misuse.

One writer says:

> Technically, I guess, the oldest subsidy of which there is any record was the gift to Adam and Eve of the Garden of Eden. This failed to last, because Eve, a monopolist at heart, couldn't bear the thought of being denied even the fruit of one tree, so she connived with a propagandist (the serpent) to win Adam's support. The result was that greed led to the cancellation of the whole subsidy arrangement, and Adam and Eve had to go to work.

Over the ages, man has learned to be more successful with subsidy arrangements.

The subsidy is indispensable today, in a world swelled with rapidly increasing population, but shrunken in size by rockets—weapons today; air carriers tomorrow—that travel well beyond the speed of sound.

There is wide knowledge that farm subsidies exist, but little understanding of them. There is only limited knowledge of the hundreds of nonfarm subsidies which have been operating to the advantage of business, industry, and the general public for many years.

I would like to insert in the record at this point a special study which I have made on the subject of subsidies. I have made no attempt to say whether a particular subsidy is good or bad. The purpose of this report is to examine subsidies in a broader setting than agriculture, and to show that, far beyond the farm gate, subsidies of many kinds have been at work over the years.

The Subject and Application of Subsidies

Subsidies have supported kings and developed kingdoms. This applies as much today as it did in ages past. Subsidies have been used to protect the weak and to enlarge the strong. Their use has promoted research, and their misuse has prohibited the full use of knowledge gained by research in order to limit competition.

Subsidies helped to settle the original colonies. They helped to establish business enterprises which have grown into giant industries.

They helped to develop our Navy and merchant fleets, to pioneer the skies, and to support the westward march of settlement and civilization.

Subsidies helped to build our railroads, to construct inland waterways, to protect, then to expand, our air transportation system, to make possible wider and wider circulation of newspapers and magazines, to enlarge and to improve our educational system, to attract capital into needed enterprises involving more than usual risk.

There are subsidies of every imaginable kind, character, and form. Some aren't called subsidies at all. There are patent laws, for instance, to protect inventors' rights to a machine, or device, or gadget that may have taken years to develop. This is an indirect subsidy in the form of protection to the individual. Some big industrial concerns take advantage of this. They buy up patents in order to delay bringing new products, or methods, into the market to keep down competition.

Most subsidies are established to serve a useful purpose. Some live beyond their useful age. Some subsidy devices and arrangements are abused. However, many of them have continued to serve a useful function for a long period of time. Examples are Government subsidies to land-grant colleges for agricultural research and extension services through the country. Subsidies to the railroads, or the airlines, or atomic energy development are other examples.

Understanding of subsidies is hampered by lack of a clear definition of what they are, and the reluctance of many subsidy beneficiaries to call subsidies by their true names. There are as many definitions of subsidies as there are persons receiving them. Many of the critics of subsidies are themselves benefiting from some type of subsidy. In such cases the subsidy they receive usually is called by another name, while subsidies helping out some other person or group may be classed as a raid on the taxpayer's dollar.

Subsidies are usually associated with a direct outlay of money by a government to an industry, a group, or an individual. One dictionary definition says a subsidy is "a government grant to assist a private enterprise deemed advantageous to the public." Another calls a subsidy "a grant of money from a government to a person or industrial scheme considered as beneficial to the public."

Commonly accepted subsidies include direct government grants, payments, and loans, forgiveness of certain taxes, and the supplying of commodities, materials, or services at less than cost.

Most authorities also include any government grant of protection or privilege which gives special advantage. The tariff and patent protection laws fall in this class of subsidies, as well as rights granted to some public-service institutions to operate without fear of monopoly prosecution.

In recent years the subsidy has become closely associated in the public mind with agriculture and the farmer. As applied to agriculture, the word has been surrounded with implications of self-interest, greed, and a breakdown of moral fiber.

However, those familiar with the important part subsidies have played—and are playing still—in the development of the country pay little respect to insinuations of this kind.

From the beginnings of the original colonies, subsidies have had an important role in American development. Huge land subsidies were

granted for establishing colonies and fortifying them. Some of the early organizers of colonies were paid cash subsidies for each settler they brought in.

The greatest and most enduring subsidy ever enacted was the tariff system. This is not a direct money grant. It operates unseen. It simply sets up a barrier against the importation of thousands of raw and manufactured items and commodities unless they pay a tax to get in.

Tariff revenues to Government alone are running $600 to $700 million a year. Benefits to business, industry, and other groups, including agriculture, run to untold millions in addition.

Just because the tariff is a subsidy doesn't mean it is bad. Some people think some tariffs are bad, but no one has seriously suggested that the whole tariff structure be wiped out.

One of the classic remarks on subsidies was attributed to an agricultural leader working on new farm programs in the early thirties: "Oh, if we could only find a method of financing that would work as smoothly and as silently as the tariff!"

The first tariff law was enacted in 1789 as the second act of the first Congress of the United States.

This legislation established the subsidy principle. The purpose was to develop an American merchant fleet. The bill provided that goods imported into the United States on American vessels should have a 10-percent reduction in customs duties. A tonnage tax also was imposed in favor of American shipping.

The Legislative Reference Service of the Library of Congress has made a limited study of the history of subsidies in the United States. This study shows that the first direct subsidy of record paid by the Federal Government was in 1845 when Congress authorized the Postmaster General to award payments for carrying the mail.

Mail subsidies totaling $14,400,000 were paid between 1847 and 1858. Their object was to help establish steamship lines in various foreign ports. These subsidies were discontinued in 1858, but were revived in 1865–74.

Congress passed the Ocean Mail Act in 1891. This provided for mail subsidies of $29,630,000 until 1928, more than half the total going to the American line operating between New York and England.

Additional aids to the private shipping industry came with the Jones-White Mail Subsidy Act of 1928. The shipbuilding loan fund of $25 million established by the Merchant Marine Act of 1920 to help with construction of new ships was increased to $250 million. Terms of the loan were made easier.

Mail subsidies were liberalized. Payments were gradually increased from $9 million for the first fiscal year, 1929, to $29 million for the fiscal year, 1934.

In 1936 Congress passed a Merchant Marine Act. One of its principal objects was to aid private enterprise in construction of new vessels to be used in foreign trade.

The United States Maritime Commission was empowered to have a ship built in a United States shipyard, to pay the construction cost, then to sell the ship for an amount equal to the cost of building it in a foreign country. In no case could the subsidy exceed half the actual cost of the vessel. These subsidies are commonly called construction differential subsidies.

Subsidies to private shipping interests have been justified on grounds that a large merchant fleet employs both American capital and labor, promotes foreign trade, contributes to the national defense, and helps to insure against breaks in service during war or other emergency.

After World War I private ship operators were allowed to acquire ships from the Government at a fraction of original value, and builders were granted loans on favorable terms.

The first substantial land grants by Government were to the water carriers. Between 1827 and 1866 the Government granted 6,340,399 acres of public lands to private interests to aid in canal building and river improvement, in addition to right-of-way grants.

Aside from these direct land grants, public aid to water carriers has taken the form principally of Government improvement and maintenance of waterways. An appropriation for rivers and harbors is made each year.

The railroads never would have made it across the country without huge subsidies from the Government. These principally took the form of land grants during the last half of the 19th century. Within this period approximately 183 million acres of land were granted to the railroads. The acreage is not necessarily comparable, but the total represents more land than was planted to four major crops last year—corn, wheat, cotton, and soybeans.

It has been estimated that the total amount of public aid given to railroads to promote construction amounts to $1,282 million. In addition, since 1932 loans on favorable terms were made to railroads by the Reconstruction Finance Corporation and the Federal Emergency Administration of Public Works. Other indirect aids to railroads took the form of lowering the import duty on railroad iron, mail-service contracts, and grants of right-of-way over public lands.

Whether the heavy spending on highway improvement and maintenance represents a direct subsidy to the trucking industry has been debated widely. The motor carriers themselves say "No." They claim the registration fees, gas taxes, and other charges they have paid in to local, State, and Federal Government have met all the cost properly attributable to the industry. Railway spokesmen, of course, claim otherwise.

The original subsidies for air transportation took the form of mail subsidies. The Air Mail Act of 1925 awarded mail contracts to private companies, and retired the Post Office Department from flying activities.

No subsidy was planned at the beginning. Payments were to be limited to four-fifths of airmail revenues. The basis for payment was later changed to increase payments to the airlines and to reduce airmail postal rates. Payments exceeded estimated airmail revenue in 1929 by nearly $7 million.

In 1930, Congress passed the Waters Act which established a new formula for mail payment. It supplied more liberal pay for carrying airmail, and was designed to encourage passenger traffic. Payments increased from nearly $17 million in 1931 to nearly $20 million in 1932.

Charges of collusion between the mail carriers and postal officials led to cancellation of all mail contracts in 1934. The resulting Air Mail Act of 1934 restored contract operations and competitive bid-

ding. Payments to airmail carriers jumped from $9 million in 1935 to a little more than $14 million in 1938.

The Civil Aeronautics Act of 1938 again liberalized airmail payments. Government aids also included expenditures on airports, airways, and related services. Public aid to the air transport industry is estimated at approximately $120,431,000 for the period 1926–38. Another $50 million represents public aid to civilian users of aircraft other than scheduled air carriers.

Income-tax relief in the form of a percentage depletion allowance has been granted for many years to developers and operators of oil and gas properties, and to operators of other types of mines. Under this system the developer can deduct for tax purposes a certain percentage of his net income obtained from profits in the operation. The percentage varies. It amounts to 27.5 percent for oil and gas wells. It's 23 percent for sulfur mines, 15 percent for certain nonmetals.

The theory of the percentage depletion allowance is that the operator of an oil well, for example, is depleting the wealth of his property by producing from it. This being exhaustible natural wealth, the operator is entitled to government aid. That's the theory.

In agriculture this might be called a soil-depletion or fertility-depletion allowance. The farmer also depletes natural wealth when he produces from the soil. In this connection, farmers have access to government aids in the form of conservation programs. By making use of these and by spending his own funds a farmer can restore natural wealth depletion.

In recent years subsidies in the form of depletion allowances to a comparatively few have exceeded by a good many millions subsidies to a large number of farmers for carrying out conservation practices. Many of the latter involve the spending of additional personal funds.

To many a hardheaded businessman the subsidy to the farmer for using practices to preserve wealth in the soil represents a government handout, while the subsidy to the oil company represents a justifiable business allowance.

Direct subsidy aids to agriculture go back to the Homestead Act of 1862 which made the western public domain available for settlement. In the same year the Land Grant College Act donated free land to the States for establishment of colleges of agriculture and mechanical arts.

The Hatch Act of 1887 provided Federal aid to encourage more agricultural research. The Smith-Lever Act of 1914 set up a federally aided system of education for farmers through the Extension Service.

The main purposes of public aids to agriculture during the period before the 1920's were to help fill up the open spaces in the country, to establish institutions, to produce knowledge through basic production research, and to expand services for improving farming methods. Nearly all the effort was concentrated on learning how to produce more.

There was little need until the 1920's for greater knowledge of how to get along with abundance, once it was produced. The first attempts to cope with this problem came with the Agricultural Marketing Act of 1929. This established the Federal Farm Board and set up

a revolving fund of $500 million for the purpose of maintaining farm prices and disposing of farm surpluses.

The Farm Board attempt was not big enough, not bold enough, and it lacked sufficient public support to succeed. Since then public aids to agriculture have taken several different forms, have involved more and have served a much broader purpose than helping farmers. Conservation, price stability, establishment of reserves for consumer protection, development of water and power resources, even assistance in foreign policy, are the main functions served by Government subsidies to agriculture today.

Present aids to farmers are the product of two basic problems not limited to the interests of farmers alone.

One of these is how to get along with abundance without driving the family from the land and having to rely for food upon the company or the corporation. The other is the fact, only slowly gaining recognition and acceptance, that our resources of soil and water, great as they are, are not inexhaustible and must be maintained in good order against that point in time when vastly greater demands will be made upon them.

A comparison of the cost of agricultural price supports, which some consider as subsidies to the farmer, with Federal expenditures for consumer and business subsidies and the Federal investment in stockpiles of military material and other strategic items is set forth below. This shows that price-support losses from 1933 to date have cost the taxpayer less than mail subsidies postal deficits during the 10-year period, 1946–56. It also shows that the cost of the price-support program has been only about 10 percent of the cost of business-reconversion payments, including tax amortization, and other financial aids to industry during the past 20 years.

Further, it should be pointed out that, as a result of our large defense program, 50 large corporations received $80 billion in contracts during the past 5 or 6 years. The stocks of these companies have increased from $57 to $149 per share during this period. This situation is generally true for all contractors for defense work. While such contracts cannot be labeled as subsidies to industry, they certainly can be termed direct Federal financial support.

The point of all this is that subsidies in one form or another are accepted as a normal part of our economy. We must either continue price supports for agriculture to maintain a proper balance or provide for adequate prices for the farmer at the market place.

Comparison of CCC farm price-support costs with subsidies and emergency investment

Program	*Millions*
1. Losses under price-support program:	
Basics	$1,929
Nonbasics	3,155
Total	[1] 5,084
2. Federal programs for—	
Consumer subsidies (losses):	
CCC	[2] 2,102
DSC and RFC	[3] 2,143
Subtotal	4,245
Mail subsidies	[4] 5,968
Business reconversion payments (including tax amortization)	[5] 43,262
Subsidies to maritime organizations	[6] 3,500
Subsidies to airlines	[6] 614
3. Federal investment in—	
Food and fiber (CCC inventories)	[7] 7,188
National stockpile of material	[8] 6,200

[1] From beginning of program through Nov. 30, 1957.
[2] Since July 1941. The last CCC subsidy program was ended on Oct. 31, 1947, although claims, refunds, and adjustments continued to be processed after that date.
[3] Since July 1, 1943. All Defense Supplies Corporation and Reconstruction Finance Corporation subsidy programs were ended by Oct. 14, 1946, but claims, refunds, and adjustments continued to be processed after that date.
[4] Postal deficit for 1946-56 period.
[5] Includes the following: (*a*) Rapid tax amortization for defense plants (through Jan. 8, 1958), $23,094,000,000; (*b*) cost of termination of war contracts (as of July 1, 1946) $6,800,000,000; (*c*) difference between cost and sale price of real property held by War Assets Administration (as of Sept. 30, 1949), $2,650,000,000; (*d*) gross amount of applications for relief from excess profits tax (as of June 30, 1948), $6,530,000,000; and (*e*) tax relief resulting from carryback allowance for anticipated losses under the quick-refund provisions of the Tax Adjustment Act of 1945 (as of June 30, 1956), $4,188,000,000. Item (*d*) indicates applications for relief from excess-profits tax. Actual allowances granted were much smaller. The actual net loss to the Government on the $4,300,000,000 of claims which had been processed as of June 30, 1953, was some $262,000,000. Does not include "percentage depletion subsidies" discussed later in report.
[6] For period 1938 through fiscal 1957.
[7] As of Nov. 30, 1957.
[8] As of June 30, 1957.

Now take a closer look at some of the billions of dollars provided by the Federal Government in subsidies to nonfarm groups. It is not intended to show that these subsidies are good or bad. The purpose is to show that they exist; that farmers are by no means the only group which receive aid from Government.

Shipping Subsidies

About $3½ billion have been spent in the last 20 years in subsidizing ship construction and operation. A subsidy of $3,183,675,833 represents the difference between the cost to the Government and the amount paid by shipowners and operators for approximately 1,100 ships. The balance of around $310 million was paid as operating subsidies to help United States operators compete with other countries.

Not long ago Maritime Administrator Clarence G. Morse announced a trade-in credit plan for old ships. The Washington Post and Times Herald said this "laid the groundwork for a merchant marine giveaway program. * * *

In essence, Mr. Morse's plan provides that a subsidized ship operator, when contracting with the Government to build a new vessel, will be given a trade-in credit for his old ship based on the world market value less some 10 percent.

Because of the present shipping boom, the world market value for old vessels is something like 2 to 4 times what the owners of most American ships paid for them (less depreciation).

More than half of the present subsidized fleet of some 250 to 300 ships was acquired with construction subsidy allowances, and the purchase prices were further reduced by adjustments under the 1946 Ship Sales Act. The rest of the fleet was bought from the Government at prices ranging from 35 to 40 percent of construction cost.

If the policy were carried out, it could mean a potential windfall of at least $100 million to the private subsidy operators.

Air Subsidies

Public aid to the air transport industry amounted to about $120 million from 1926 to 1938. From 1938 to 1950 the estimate is $270 million. For the period from 1951 to 1955 the Civil Aeronautics Board reports subsidies to the industry of about $344 million.

Total for the 1926–54 period is $734 million. All the airlines have participated in these payments. In addition, air carriers have benefited from Government aid in providing airport and airway facilities, navigation aids, research, and sale of surplus aircraft.

A little more than $382 million for direct and indirect air subsidies were requested in the President's budget submitted to Congress this year. These include: $45 million outright subsidies to the airlines, including 13 local domestic lines, those operating between the United States and Alaska, and those operating between the United States and South America. Another $69 million for air navigational facilities. Last year this total was $34.6 million.

Grants-in-aid for airport construction amounting to $35 million. Another $25½ million for improving ground-air communications systems, and $188 million for operation and maintenance of the traffic-control system.

Mail Subsidies

The taxpayers have subsidized business and other types of mail which do not pay their way to the tune of nearly $6 billion since 1946. The postal deficit for the 1946–56 period period totals $5,968,400,000, including public service costs.

If to this are added the estimated deficits of $515 million for the fiscal year ending June 30, 1957, and of $651 million for the fiscal year ending June 30, 1958, the postal subsidy will have climbed to above $7 billion in 13 years.

Most of this subsidy goes to businesses using second-, third-, and fourth-class mail in large volume. These include magazines, newspapers, other types of publishers, mail-order houses, banks, firms, and corporations which use a large volume of direct-mail advertising—so-called junk mail.

The Post Office Department says "about 75 percent of all mail originates with businesses operated for private profit." Postal deficits are paid out of general tax revenues collected from all the people. At the present time, individuals pay approximately 60 percent of all income taxes and corporations 40 percent.

The cost of postal service to business is tax deductible. Big corporations in the 52 percent tax bracket thus pay only half of their actual mail expense. The balance is financed by all taxpayers. In most cases the nondeductible portion is passed onto the consumer in the form

of higher cost of product or service. In the final analysis, nearly all of the postal cost to business is absorbed by others.

Postal subsidies have been going on for a long time. Congress established the principle of service-before-profit in the postal service as early as 1794. This principle has been reasserted a number of times.

Postal deficits ranged from $3 million a year to $17 million from 1884 to 1910. Between 1910 and 1920 there were 7 years of surplus. Most of these were during World War I. From 1920 to 1942 deficits ranged from $14 million to $205 million a year. In 3 years of World War II there were cash surpluses—1943–44–45. War brought a big increase in high-revenue mail. It reduced transportation costs, since the military bore a large share of the cost of overseas transportation. From 1946 on, the Post Office Department has operated in the red.

A postal surplus doesn't mean subsidy to business has stopped. This subsidy goes on year in and year out with few exceptions. It is because the subsidized mail—largely second, third, and fourth class—was never intended to pay its way and seldom has.

Second-class mail consists of newspapers and magazines. Subsidy to this type of mail from 1932 through 1942: $966 million. Subsidy from 1946 through 1956: $2,252 million.

Third-class mail consists mainly of advertising circulars, catalogs, miscellaneous printed matter, and mechandise weighing 8 ounces or less. Subsidy to this type of mail from 1932 through 1942: $260 million. Subsidy from 1946 through 1956: $1,500 million.

Fourth-class mail is book mail. Subsidy to this type since 1946: $813 million.

In the 10 years following 1946, second-class mail paid approximately a fifth of its way. Third-class mail paid a little over half of actual costs.

Second-class mail deserves special attention in any study of nonfarm subsidies. Some of the largest, most widely circulated, and most profitable of the publications are the most highly subsidized and the most critical of farm subsidies. Here is some information about second-class mail brought out in hearings before the House Committee on Post Office and Civil Service this year:

Advertising matter in second-class publications pays a lower postal rate today than 40 years ago.

In the last fiscal year the average revenue per piece of second-class mail handled was less than 1 cent; cost per piece was a little more than 4½ cents.

Three-fourths of the weight a mailman has to carry consists of second- and fourth-class mail: 25 percent for second class; 54 percent for fourth class.

It requires about twice as much time to handle a given number of newspapers and magazines as it does to handle the same number of pieces of first-class mail.

There are approximately 25,000 second-class publications. Of these around 1,800 are magazines published for profit. Approximately 60 of the 1,800 have circulations of more than 1 million. About 150 have mailed circulations of more than 250,000. The rest are smaller magazines.

Special low-cost second-class rates are made to "exempt" publications. They include those of certain nonprofit organizations, those

for specific use in schools or in religious instruction, and those delivered free within the county of publication. If regular second-class rates were paid by all such preferential publications, the subsidy cost of second-class mail would be reduced by only $3.1 million.

At the request of Congress, the Post Office has made estimates of the annual revenues and costs involved in the handling of some of the larger publications having the second-class mailing privilege. In general the revenue estimates are based on data from Post Office records covering the mailings of all issues of these publications for the month of March 1956, extended to annual revenues on the basis of the number of issues per year. Revenue estimates for Life magazine were based on mailings of the first three issues in March; for Better Homes and Gardens and the Saturday Evening Post on issues for November 1954; for the Readers' Digest on the November 1955 issue.

Revenues accounted for only 35 percent of the cost of handling the 14 publications shown in the table. The other 65 percent represent subsidy. The subsidy to four publications alone—Life, Saturday Evening Post, Readers' Digest, and Look totals more than the revenues from all the publications listed.

Since representatives of some of the publications have contested the Post Office estimates, testimony from the Department is attached as a footnote to the table in explanation of what the figures mean.

Here are the Post Office estimates of revenues and costs, along with a third column showing the difference, or amount of subsidy involved:[1]

Publication	Estimated revenue	Estimated cost	Amount of subsidy
Life	$7,485,000	$16,979,000	$9,494,000
Saturday Evening Post	3,448,000	9,557,000	6,109,000
Reader's Digest	1,082,000	5,891,000	4,809,000
Look magazine	1,534,000	5,016,000	3,482,000
Collier's (discontinued)	4,415,000	1,238,000	3,177,000
Ladies Home Journal	1,530,000	3,449,000	1,919,000
Woman's Home Companion	741,000	2,325,000	1,584,000
McCall's magazine	1,097,000	2,604,000	1,507,000
National Geographic	486,000	1,821,000	1,335,000
Good Housekeeping	881,000	2,175,000	1,294,000
American Home	623,000	1,753,000	1,170,000
Better Homes and Gardens	758,000	1,904,000	1,146,000
American Monthly	326,000	1,359,000	1,033,000
Coronet	180,000	976,000	796,000
Total	21,409,000	60,264,000	38,855,000

The cost figure of 7.5 cents per copy of Life was released by the Post Office in answer to a congressional request in 1953. It was made clear that the figure was the best possible estimate available at the time and was predicated on certain assumptions. These assumptions were that Life would be charged with the average unit cost, for all general magazines, using the applicable costs per piece, per pound, per cubic foot, and per cubic-foot-mile, as these factors are appropriate to measure the various handling and transportation operations.

Through the use of these averages (a technique frequently used in analyzing costs, particularly in the transportation field), the Post Office approximated the cost of handling Life without a thorough cost study. It is an injustice to the

[1] From testimony of the Post Office this year before the House Committee on Post Office and Civil Service: "The Post Office cost system is not designed to provide regular cost figures for any one publication, and the expense of such a system would be prohibitive. It is possible to make special cost studies of a single publication, but this is expensive and time consuming."

publishers and to the Post Office in a sense, whenever these figures are used without these qualifying remarks.

Nevertheless, the Post Office believed then and believes now that the result is not significantly incorrect as a measure of the full cost of carrying this publication * * *.

Fortunately, the Post Office did undertake a few years ago to make some specific cost studies of publications to test the validity of using average cost factors. These tests show conclusively that physical characteristics of a particular publication and other variable factors do not tend to destroy, beyond a relatively minor degree, the validity of the averages.

Life was not included among the publications on which these field tests were made. But Time, a sister publication to Life, was included. So was the Saturday Evening Post, a heavier publication than Time, with wide circulation.

In the case of Time, the detailed cost study produced cost figures only 11 percent less than the results by using unit averages. This difference may well be, in part, a fair reflection of the value of the careful preparation of this publication before mailing. On the other hand, the Saturday Evening Post cost study produced results only one-half percent different from the figures determined by using average unit cost factors * * *.

In 1954, we made a cost study of the cost of handling the Reader's Digest beginning at the time it was put in the mail and going through all the operations for that publication specifically, and the result of that came very close to the figures that you have used here, which are based on averages.

Percentage Depletion Subsidies

Corporations engaged in mining operations of one kind or another have reported tax exemptions on income totaling $23,397 million in the 29 years, 1925–53. Of this total, $14,817 million of tax-free income has been reported in the last 10 years of the period 1944–53. The amount has been rising each year.

These figures cover corporations only. Individually owned firms are not included, and the figures are not readily available. Corporations normally account for something more than 80 percent of depletion allowances; individuals for less than 20 percent.

This tax-free income represents the percentage depletion allowance granted since 1913 on income reported by operators and developers of oil and gas properties, and of other mining enterprises. The tax theory is that the owner of an oil well, for instance, is entitled to tax privilege, or tax subsidy, for depleting the wealth of his property by producing from it.

Percentage depletion tax-free rates are based on a specified percent of gross income from the property, but not more than half of net income.

Following are the rates allowed by present law based on gross income:

1. Oil and gas wells, 27½ percent.
2. Sulfur and uranium, and (if mined in the United States) asbestos, bauxite, lead, manganese, mercury, nickel, platinum, tin, tungsten, zinc, and 27 other minerals, 23 percent.
3. Clay, asphalt, and metals not covered by the second category, 15 percent.
4. Asbestos (not covered by the second category), coal, lignite, and 4 other minerals, 10 percent.
5. Brick and tile clay, gravel, sand, rough stone, and brine well products, 5 percent.
6. All other minerals except soil, sod, dirt, turf, water, or mosses, or minerals from sea water, the air or similar inexhaustible resources, 15 percent.

Two exceptions are made to the last group. Some of them are listed in the second category if produced in the United States. All of them are, in addition, subject to a use test. That is, they may be restricted to the 5 percent rate when used for purposes comparable to common sand, gravel, or rough stone.

Following are the amounts of tax-free depletion reported on corporate income tax returns for the years 1925–53.

Year	Amount (millions)	Year	Amount (millions)
1925	$472	1941	$544
1926	571	1942	578
1927	502	1943	644
1928	515	1944	712
1929	559	1945	693
1930	463	1946	799
1931	268	1947	1,210
1932	246	1948	1,711
1933	246	1949	1,476
1934	312	1950	1,709
1935	349	1951	2,079
1936	437	1952	2,126
1937	524	1953	2,302
1938	437		
1939	438	Total	23,397
1940	475		

There is no ceiling on the total amount of these tax deductions. Over the life of a property such as an oil well, tax deductions may total many times actual investment costs. In other words, depletion subsidies can be claimed long after the cost of the property has been written off.

One study reported in 1955 by the Joint Economic Committee said that during the 4 years 1946–49 depletion deductions were at least 10 times deductions based on actual cost. This report said allowable depletion may now be nearer 20 times depletion based on cost, in view of further tax advantages gained in 1951 and 1954.

Original income-tax legislation provided a depletion allowance of not to exceed 5 percent of gross income for wasting mineral assets. This later was changed to permit depletion to be based on cost, or 1913 value of the property.

Allowances in excess of cost depletion were first granted in 1918. Discovery depletion was granted in that year to stimulate mineral exploration for war purposes.

Discovery deductions allowed the discoverer of a new mineral deposit not only to recover his costs, but also the value of his property after its profitability had been established.

Because this was being used to offset other income, Congress limited yearly discovery depletion in 1921 to the amount of net income. In 1924 it further limited such tax writeoffs to 50 percent of net income.

Discovery depletion was eliminated for oil and gas properties in 1926, and for metals, sulfur, and coal in 1932. In its place tax-free allowances based on percentage depletion was substituted. In 1954 discovery depletion was eliminated for all minerals.

In addition to depletion allowances, the tax law provides special treatment for certain capital expenses in bringing properties into production.

This permits tax writeoff of the costs of exploration and development of mineral deposits, except for oil and gas wells. Included are expenses covering labor, cost of fuel and power, materials and supplies, tool rental, repairs of drilling equipment, etc.

Deductions for exploration expenses are limited to $100,000 a year for not more than 4 years. No limitations are imposed on development costs.

Oil and gas operators are given similar tax deductions. They can writeoff as current expense their so-called intangible drilling and development costs of wells. Expenses currently deductible include labor, fuel and power, materials and supplies, tool rental, repairs of drilling equipment, etc. There is no limit on the amount of such outlays which may be deducted.

The 1956 Joint Economic Committee report says:

> Expensing of intangible drilling and development costs of oil and gas wells has existed continuously since an administrative ruling under the Revenue Act of 1916; a concurrent resolution of Congress in 1945 assured its continuance, and finally an express statutory provision was incorporated in the Internal Revenue Code of 1954.

The advantage of special tax-saving subsidies to the oil industry is illustrated by a table published in the 1955 joint committee report showing the effective 1954 tax rate on three companies which specialize in crude oil production, 24 large oil companies combined, and all corporations. The table:

Companies	Net income before tax	Federal income tax	Effective tax rate
	Millions	*Millions*	
Tidewater Associated Oil Co	$38.0	$3.5	9.2
Humble Oil & Refining Co	174.8	28.5	16.3
Skelly Oil Co	36.1	6.7	18.5
24 large petroleum companies	2,541.0	575.0	22.6
All corporations	34,042.0	16,369.0	48.1

Aramco, the Arabian-American Oil Co. owned by 4 major United States companies, paid no United States taxes in 1955 on a net income before depletion allowances of $464,900,000. This was brought out recently in testimony before the Antimonopoly Subcommittee of the Senate Judiciary Committee.

Oil companies operating in foreign countries are permitted under an old tax law to offset their United States income taxes with those paid in the countries in which they operate. Aramco is owned by Standard Oil of New Jersey, Standard Oil of California, Gulf Oil Co., and Texaco. In 1955 Aramco paid King Saud of Saudi Arabia $192 million in taxes.

Aramco's net income before depletion allowance was $464,900,000. A depletion allowance would have come to $121,700,000, leaving a taxable income of $343,250,000. Under tax laws applying to domestic operations, the United States would have collected $178,500,000 in taxes in 1955. However, this was wiped out by the tax credit paid to King Saud, leaving Aramco with net earnings after foreign taxes of $272 million.

Fast Tax Writeoff

Rapid tax amortization is a form of special Government assistance to industry used to expand industrial capacity during emergencies. It is a tax incentive. It was used, along with the excess-profits tax, during World War I, World War II, and during the war in Korea. It has been continued since, though the excess-profits tax has been dropped.

A report on rapid tax amortization (or fast tax writeoff) was issued by the staff of the Joint Committee on Internal Revenue Taxation in December 1956. The report said in part:

> Rapid amortization is a form of special Government assistance to private manufacturers or, bluntly, a subsidy. It is an alternative to outright Government construction of plants needed in a war. As does any subsidy, it involves favoring one firm that gets a subsidy over another.

The amount of fast tax writeoff during World War I was small—estimated roughly at $650 million. During World War II the total came to $5.7 billion. Since 1950, rapid tax amortization certificates totaling around $23 billion have been issued, covering facilities estimated to cost more than $38 billion. More than $7 billion of the total certified have been approved since the end of the Korean war in 1953.

Three-fourths of the $23 billion went to six groups of industries—metals, chemicals, petroleum and coal, utilities and sanitary services, railroads, and mining. Some 229 kinds of industries are involved in the whole program.

Rapid tax amortization permits depreciation for tax purposes of all or part of the cost of a plant in 5 years instead of over its normal useful life. This might be 10 to 50 years. To qualify for this fast tax writeoff a company obtains a certificate of necessity from the Office of Defense Mobilization. This certificate specifies the proportion of which can be written off in 5 years. The average is a little over 60 percent.

No taxes are paid on the amount certified for fast tax writeoffs during the first 5 years. Payment of the tax begins in the sixth year and continues for the balance of the taxable period. If tax rates remain the same, the full amount of tax will be paid. If tax rates rise, the company will have to pay more. If tax rates decline, which would appear to be more likely, the company would pay less.

This postponement of taxes for 5 years is recognized as the equivalent of an interest-free loan from the Government. The value of this type of tax treatment of industry has been described in a number of ways. A staff report of the Joint Committee on Internal Revenue Taxation, issued December 1956, put it this way:

> The deceptive aspect of describing rapid amortization as merely an interest-free loan is that an interest-free loan is worth some current cash. If the Government should give an individual a 10-year interest-free loan for $100, the individual could immediately invest $75 in a series E Government savings bond, which would provide enough money after 10 years to pay off the loan. The remaining $25 would be a net gain to the recipient of the interest-free loan; it is one way of describing the cash value of the loan.

The Denver Post of June 24, 1957, described the value of the interest-free loan type subsidy involved in the fast tax writeoff on a long term facility in this way:

> Say the Government allowed the average taxpayer to keep $100 of his income tax every years for 5 years, and then repay it in small amounts over the 45 years without interest.
>
> In 5 years the taxpayer would have a $500 interest-free loan of income taxes he ordinarily would have paid. By investing this $500 at 3 percent compound interest, he could repay the loan and have $977.44 left over at the end of 50 years. At 4 percent interest, his free $500 tax loan would earn $1,819.17 in 50 years, after paying itself off besides.
>
> That is how fast tax writeoffs work—except they involve billions of dollars for favored industries, not just hundreds for average taxpayers.

The National Rural Electric Cooperative Association estimates that the "net subsidy" involved in $1 million of fast tax writeoff to a utility on a plant or facility with a normal tax life of 33⅓ years is $1,502,564.

Russell C. Rainwater, chief accountant for the Federal Power Commission, testified that in his opinion the $65 million in fast tax amortization certificates awarded the Idaho Power Co. on 2 dams in the Hells Canyon area of the Snake River could benefit the company as much as $339,144,000 over a 50-year period. (Idaho Power later withdrew its request for rapid tax amortization aid.)

The staff report of the Joint Committee on Internal Revenue Taxation estimates that the tax postponement on certificates issued through Ocober 1956 will amount to $5 billion during the 1950's. It estimates about half of this loss will be recovered by 1976, and the remainder in the following 30-odd years. That is, around by the year 2006.

The same report estimates that the interest cost to the Government of borrowings required to finance this postponement of taxes would be around $3 billion through the year 1976, plus in the neighborhood of another $1 billion after 1976. This estimate was based on an average rate of interest on the entire Federal debt of 2.63 percent. Current borrowing rates are over 3 percent.

The report says further:

> If the Federal Government follows some rule of budgeting, for example, keeping a balanced administrative budget, then revenue from one taxpayer postponed this year must be made up by keeping rates on other taxpayers higher than they otherwise would have been. When the postponed taxes are ultimately paid, the other taxpayers get a break, but by that time there may be different "other taxpayers."
>
> The significance of all this is that it is fair to say that the period of the 1950's, when the costs of a large defense program are being met, taxpayers without certificates of necessity for rapid amortization will have been required to pay about $5 billion to $6 billion more in taxes than they would have paid without rapid amortization.

INCREASED INDUSTRIAL USE OF AGRICULTURAL PRODUCTS, UNITED STATES DEPARTMENT OF AGRICULTURE

A REPORT TO THE COMMITTEE ON APPROPRIATIONS, UNITED STATES HOUSE OF REPRESENTATIVES, BY SURVEYS AND INVESTIGATIONS STAFF, NOVEMBER 1957

SUMMARY AND TABLE OF CONTENTS

I. DIRECTIVE

II. MATERIAL REQUESTED BY THE COMMITTEE

The Chairman of the Commission on Increased Industrial Use of Agricultural Products advised that the Commission did not have sufficient time or personnel to gather complete data in the areas which the Committee on Appropriations has requested specific information. Data used in the Commission's final report relative to research expenditures, agricultural markets and potential markets, price of farm commodities, and proposed research investigations are primarily estimates based on data furnished by the United States Department of Agriculture (USDA) and information known to individuals assigned to the Commission from industry.

III. LEGISLATIVE BASIS ESTABLISHING THE COMMISSION ON INCREASED INDUSTRIAL USE OF AGRCULTURAL PRODUCTS

The Commission was established pursuant to section 209 of title II of the Agricultural Act of 1956, Public Law 540, 84th Congress, to make recommendations for the industrial use of agricultural products not needed as food and feed.

IV. ORGANIZATION AND PROCEDURE BY THE COMMISSION

The Commission consisted of five members. An executive director, a research director, an assistant research director, and 188 leaders in agriculture, industry, and science made up the task force. The Commission separated the task force into 18 task groups to review specific agricultural commodities and make respective reports to the Commission. The Commission then issued a final report to Congress on June 15, 1957, at which time it ceased to exist.

Two of the task reports were prepared by the United States Department of Agriculture and considerable data and assistance were credited to the United States Department of Agriculture in the other reports.

V. RECOMMENDATIONS BY THE COMMISSION

The Commission made 10 recommendations, 7 of which deal with fostering basic research through grants, fellowships, Government-industry sharing of cost, new crops, trial commercialization of new products, and incentives to farmers and industry. The other three recommendations are concerned with financing and administration.

The recommendations of the Commission are similar to the provisions of a bill introduced by Senator Homer E. Capehart (Republican, Indiana) in the 84th Congress, 2d session, which did not become law.

The Commission in its final report suggested 59 projects for basic research, 19 projects for development research, 17 projects in food study, and 11 projects of new crops. These projects have been known to the USDA for sometime, many dating back to a survey made by USDA in 1939.

VI. SENATE BILL 3503, 84TH CONGRESS, 2D SESSION

In addition to the similarity of this bill to the recommendations that were subsequently made by the Commission, the hearings produced statements from agricultural people which suggested caution in introducing a crash program for utilization research of agricultural products. One witness stated that it is relatively easy to design uses for agricultural products and to work out the conversion processes but it is more difficult to overcome the relatively high cost of producing agricultural raw materials.

VII. SEPARATE REPORTS OF THE INDIVIDUAL TASK GROUPS OF THE COMMISSION

A. Report of the task group on industrial use of grains (other than alcohol)

This group came to the conclusion that in certain cases the market value of grain is too high to compete economically with other raw materials.

1. *Report on wheat and wheat flour (other than fermentation).*—Wheat, a food grain, is too high to compete with other grains. Starch in wood-products industry is susceptible to insect and fungal attack, is not water resistant, and lacks the required strength properties. Fibers have been produced into textiles but this would compete with other agricultural fibers, including wool, cotton, and linen.

2. *Report on grain fermentation.*—The task group estimated that to produce butyl alcohol, corn would bring no more than one-half of the present quoted price. The group also believes there is no way in which new research can stimulate this use.

In production of certain acids, molasses is used as the basic raw material and there seems no reason to believe the manufacturers wish to change to other agricultural raw materials.

In the production of antibiotics and vitamins, grain does not have a large-volume outlet. The group believes that sufficient attention is being given this field by private industrial and pharmaceutical sources.

3. *Report on oats, sorghum, barley, and rye.*—Except for sorghum which can be processed much the same as corn, the development of increased industrial uses for other grains is not promising.

B. Report of the task group on industrial alcohol from grain

The task group considered all current and potential uses for alcohol made from grain and found only three of sufficient interest to warrant analysis.

1. *Butadiene (for rubber) from 95 percent alcohol.*—Alcohol could not compete with petroleum-produced material from existing plants, already depreciated, unless the price of alcohol at the butadiene plants dropped to 12.4 cents a gallon, which is equivalent to free corn at the distillery.

2. *Ethylene (for plastics) from alcohol.*—From figure compiled by the task group, corn would have to be delivered free to the distillery to compete with petroleum-produced material. Also contracts for ethylene are made only on long-term basis (15 years).

3. *Motor fuels from alcohol.*—To compete with butane, alcohol would need to be delivered to a blending plant at 5 cents a gallon. This corresponds to a loss of 29.4 cents a bushel of corn fermented without any payment for grain. The performance value of ethyl alcohol in motor fuel has decreased in recent years as the octane number of motor fuel has increased. The task group reported considerable research has been carried on in this field and it is doubtful that added research would materially change these basic processes.

C. Report of the Cotton Task Group

The task group stated that the best potential for expanding cotton consumption is in its present uses and can be realized through quality improvements and cost reductions.

The cotton group was critical of the USDA in that while research funds of that Department have increased since 1951 the cotton-research funds within that organization have not increased proportionately.

VIII. REGIONAL RESEARCH LABORATORIES OF USDA

The four regional research laboratories of the USDA were established as a result of the Agricultural Adjustment Act of 1938 to conduct research and develop new uses for farm products. A survey made by the USDA, as outlined in their report in 1939, covered many of the same commodities, suggested research projects for investigation, and new crops which now appear in the Commission's report in 1957. The USDA laboratories are either conducting investigations in all of these areas or plan to expand such research when funds and personnel are available. The USDA contends it has been handicapped in its industrial-research progress by World War II and the Korean conflict which caused a shift in their program to extend existing supplies and develop substitutes.

IX. ANNUAL REPORT OF USDA ON UTILIZATION RESEARCH

In compliance with the Agricultural Act of 1956 the Secretary of the USDA compiled an annual report of its program for the expansion of markets for surplus agricultural commodities through utilization research. This report, prepared in early 1957, discusses the commodities under investigation in the four laboratories and described a number of research projects which the USDA believes have a good potential for future development. These project descriptions are similar in scope with those mentioned in the Commission's report.

X. COMMISSION RECOMMENDATION TO INCREASE FUNDS FOR RESEARCH BY THREEFOLD

The Commission's recommendation to increase funds for industrial research by threefold was not based upon a cost study but represents a sum arbitrarily selected. The Commission Chairman desires that none of the increase be used to expand the USDA operations in research but should be made available to a new commission.

The Assistant Secretary of USDA testified on May 10, 1957, that with present facilities the Department could increase its program by $9 million over 1957 or $7 million over the 1958 budget request. If additional funds should be authorized by Congress, the Department would like to double their present facilities at their present sites. The USDA is also opposed to establishing a separate commission to direct a new research program.

A newspaper article appearing in the Washington Star on September 19, 1957, revealed that the USDA plans to ask Congress to launch a broad and costly drive for expanding industrial use of surplus farm commodities probably based on the recommendations of the Commission.

I. Directive

The Committee on Appropriations instructed this staff by directive dated May 6, 1957, to inquire into the proposals of the Commission on Increased Industrial Use of Agricultural Products outlined in its interim report dated April 17, 1957, with particular reference to—

1. The research which is already being done in this field and funds being spent from Federal, State, and private sources;
2. Former experience in loss of markets for agricultural raw materials;
3. The present source of raw material used by industry and changes in use and price for farm produced raw material might be expected;
4. The extent to which this program would add to total agricultural production or would transfer production from one farm commodity to another; and
5. The attitude of business, particularly those supplying raw material which would be replaced.

The directive was pursued as an inquiry to assist the committee in evaluating the work and accomplishments of the Commission. In carrying out this objective conferences were had with Mr. J. Leroy Welsh, grain dealer, Omaha, Nebr., who was chairman of the Commission, and with Dr. G. E. Hilbert, Assistant Administrator, Utilization Research and Development, Agricultural Research Service, United States Department of Agriculture (USDA), who was research director for the Commission. Other reference material came from the Commission's final report dated June 15, 1957, reports of various task groups of the Commission, publications of USDA, and congressional hearings.

II. Material Requested by the Committee

Mr. J. Leroy Welsh, Chairman of the Commission, advised that the Commission only made a limited inquiry into the areas mentioned in the committee's directive. Mr. Welsh stated that the Commission did not have sufficient time or personnel to perform the research necessary to gather data relative to loss of markets for agricultural raw material, funds presently being spent in research, potential consumption of agricultural raw material for industrial use, or the transfer of one farm commodity to another. He stated that any statements made in the final report in these areas could be considered as a general estimate based upon information furnished by USDA or on information known to some individual on a task group who is familiar with the industry. Mr. Welsh advised that the Commission, in the short time available, was interested in gathering all of the potential outlets for farm commodities in industrial use and then establish some means whereby a program utilizing agricultural raw materials could be carried out. The following answers to the committee's directive were provided by Mr. Welsh and/or Dr. G. E. Hilbert, research director for the Commission.

1. The research which is already being done in this field and funds being spent from Federal, State, and private sources

The final report of the Commission estimated that total expenditures for agricultural research, most of which goes for production research, does not exceed $375 million annually, of which approximately $190 million comes from Federal and State governments. The report further pointed out that the Federal appropriation for utilization research, including money for forestry and new crops, is $16,145,000.

Dr. Hilbert advised that these figures came from the budget office of the USDA, which attempts to compile some statistics on research expenditures. He advised, however, that it is difficult to arrive at an accurate estimate since USDA does not have complete data from State schools which are not receiving grants from the Federal Government or from private industry, which, for competitive reasons, do not desire to disclose their research activities to public sources. This lack of accurate information on expenditures for research at the State and private industry level also applies to some degree to the nature of the research projects being developed. He also stated that to compile an accurate estimate of Federal expenditures for research it would require an analysis of each project to determine to what extent the research is for industrial use.

Mr. Welsh advised that he instructed the task groups to put down on paper any project for research that they could think of, even if it resembled a dream. Dr. Hilbert stated that USDA furnished a list of projects that they are working on or have planned for the future. From these lists the Commission in an executive session selected the projects for inclusion in the final report.

2. Former experience in loss of markets for agricultural raw materials

The final report of the Commission stated that in recent years agriculture has been researched out of a substantial part of its natural market. It estimates that nearly one-half of the market for natural

fibers—cotton, wool, flax, silk—has been taken over by synthetic fibers; 2 out of 3 pairs of shoes are now made partly or wholly from leather substitutes; two-thirds of the soap has been replaced by detergents, which do not use natural fats; and much of the paint and varnish bypasses linseed and other vegetable oils.

Mr. Welsh advised that the Commission did not make a specific study into the loss of markets for agricultural products to synthetics. The estimates used in the report were obtained from economists of USDA and from the familiarity of the markets known to individuals from industry who were on the task groups. He stated that these estimates have been used from time to time in various publications and have been generally accepted as facts. The USDA does maintain statistics relating to markets for agricultural products and these statistics clearly reflect a declining market for such products by industry.

3. The present source of raw material used by industry and changes in use and price for farm-produced raw material which might be expected

Both Mr. Welsh and Dr. Hilbert advised that the present source of raw material used by the synthetic industry in direct competition with agricultural raw material is petroleum and coal. They advised that if products could be developed through research from the utilization of farm raw material which would be comparable to synthetics in quality, price, and other factors it could be expected that farm products might realize their share of the markets. The Commission did not make a study of the potential markets for agricultural raw materials in industry insofar as volume or price is concerned. Some of the task groups did attempt to forecast the amount of grain or fiber which might be consumed in the manufacture of a particular end product if an estimated percentage of the present market could be supplied through agricultural raw materials.

Dr. Hilbert advised that any estimates made by the task groups with respect to the amount of agricultural raw materials that might be consumed in any industrial product and the price which the raw material might command were purely speculative. No accurate estimate can be made since it is not known whether the product can compete with products from nonfarm sources; whether it will give as good results at less cost or better results at a cost not too much higher; whether the price will remain fairly stable; whether there will be an adequate supply and steady flow of raw materials; and whether the quality can be relied upon. In addition there must be considered whether there will be buyer acceptance of the product and what technological advances and price consideration the synthetic producers may make to protect their markets.

4. The extent to which this program would add to total agricultural production or would transfer production from one farm commodity to another

Mr. Welsh stated that the Commission's study did not include an estimate of total agricultural production that would be required to maintain a stable supply of raw material for industry, or how it would transfer production from one farm commodity to another. The projects recommended for research are more general than specific and

much of the suggested research is basic in nature. From data available it cannot now be determined that these projects would all be economically sound, therefore it is impossible to make any forecast of how much the program would add to total agricultural production or would transfer production from one farm commodity to another.

Mr. Welsh advised that some of the task groups in their individual reports attempted to project estimates of the extent of agricultural raw materials that might be consumed if certain projects were successful. Mr. Welsh pointed out that such estimates are only guesses of experienced people and cannot be supported by proven statistics.

5. The attitude of business, particularly those supplying raw material which would be replaced

Mr. Welsh advised that the synthetic industry, who is now supplying the raw materials which would be replaced by agricultural raw materials, obviously is not enthusiastic about my plans to displace them.

Mr. Welsh is of the opinion that agriculture should look for new products which would not compete directly with the synthetic industry, or perhaps take over the expansion of present synthetic markets. In the latter area, Mr. Welsh believes that to maintain a harmonious arrangement the petroleum industry might be permitted to operate the facilities using agricultural raw materials.

Mr. Welsh stated that the petroleum industry since World War II has been active in buying up Government-owned alcohol distilleries at a fraction of the original cost and have cannibalized the equipment. He stated that this move has tended to wipe out competition from distilleries which can produce alcohol from grain as to replace these plants at present day costs would be prohibitive.

Mr. Welsh advised that in order to successfully blend in a program of producing products from agricultural raw materials it would be necessary to have the cooperation and support of the petroleum and coal industries. Some arrangement would have to be worked out whereby the synthetic industry could participate and share in a program of utilization of farm products in industry.

III. Legislative Basis Establishing the Commission on Increased Industrial Use of Agricultural Products

Section 209 of title II of the Agricultural Act of 1956, Public Law 540, 84th Congress, established a bipartisan Commission on Increased Industrial Use of Agricultural Products (Commission) composed of 5 members, of whom not more than 3 members were to be of the same political party. The members were appointed by the President by and with the advice and consent of the Senate.

It was the duty of the Commission—

> to prepare and present to the Congress, not later than June 15, 1957, the necessary recommendations which in its opinion will bring about the greatest practical use for industrial purposes of agricultural products not needed for human or animal consumption, including, but not limited to, use in the manufacture of rubber, industrial alcohol, motor fuels, plastics, and other products.

The Commission submitted its final report to Congress on June 15, 1957, at which time it ceased to exist.

IV. Organization and Procedure by the Commission

The members of the Commission were J. Leroy Welsh, president of the Butler-Welsh Grain Co., Omaha, Nebr., who was Chairman; Karl D. Butler, farm counselor, AVCO Manufacturing Co., Ithaca, N. Y.; George H. Coppers, president of National Biscuit Co., New York, N. Y.; Charles R. Sayre, president, Delta & Pine Land Co., Scott, Miss.; and Frank J. Welch, dean, College of Agriculture and Home Economics, University of Kentucky, Lexington, Ky.

The executive director of the Commission was Wheeler McMillen, vice president of Farm Journal, Inc., Philadelphia, Pa. The Commission selected as research director, G. E. Hilbert, Assistant Administrator, Utilization Research and Development, Agricultural Research Service, USDA. The assistant research director was Sam R. Hoover, Assistant Director of the Eastern Utilization Research and Development Division, Agricultural Research Service, USDA.

The USDA supplied the Commission with the services of a number of employees and furnished office space, information, counsel, and assistance.

The Commission set up 18 task groups or special committees which made individual reports on the agricultural commodities they were assigned to study. The Commission prepared an interim report for Congress on April 17, 1957, and a final report on June 15, 1957. The final report was printed as Senate Document No. 45, 85th Congress, 1st session. The final report of the Commission stated that in carrying out the assignment the Commission obtained the assistance of 188 of the country's outstanding leaders in agriculture, industry, and science, drawn from a wide range of private and public agencies.

Whenever the report of the Commission is referred to hereinafter reference will be made to the final report since this is the completed edition of the Commission's task.

The areas covered by the task groups are as follows:

Corn wet-milling
Cotton
Crop residues
Industrial alcohol from grain
Industrial uses for grain other than alcohol
Dairy products
Forage crops
Forest crops
Fruits and vegetables
Hides, skins, and animal byproducts
New and special crops
Oilseeds and animal fats
Poultry products
Rice
Sugar
Tobacco
White potato products
Wool and mohair

It was noted from a review of the list of members of the various task groups that at least one member of each task group was from one of the four regional research laboratories of the USDA and has been working in the particular field to which he was assigned by the Commission. It was also noted that Wheeler McMillen, Executive Director of the Commission, is the father of Robert D. McMillen, assistant to the Secretary of Agriculture.

The task groups were formed in November 1956, and they held an average of three meetings each prior to the submission of their individual task group reports in January 1957. The Executive Director of the Commission outlined the responsibility of the commodity task groups as follows:

1. To review the present economic situation with reference to its particular crops or production.

2. To review the present and potential uses of the commodities with which it is concerned.

3. To make recommendations for consideration by the Commission of legislation designed to carry out the purposes of the Commission. Such recommendations may refer to new or expanded research, to legislation which might affect economic considerations, or other pertinent matters which Congress might wish to consider.

4. To estimate the potential existing production which may be available for industrial uses with full agricultural production and increased efficiency in farming.

The Commission reported that it obtained constructive suggestions through correspondence with experiment station directors and with more than 350 industrial executives.

At least two of the task group reports mention in the introduction that they have been prepared by the Department of Agriculture, i. e.:

1. Special report on rice

This report on suggested ways for profitably expanding the utilization of rice has been prepared by the Utilization Research Branches of the Agricultural Research Service, and reviewed by representatives of the rice industry in both California and Southern States areas.

2. Special report on forages

This report on suggested means for profitably expanding the utilization of forages has been prepared by the Utilization Research Branches of the Agricultural Research Service and reviewed by industry representatives as well as selected State agricultural experiment stations representative of the country's forage-producing areas.

It is not known to what extent the Agricultural Research Service assisted other task groups in the preparation of their reports, but frequently throughout the text of the reports credit is given to the USDA for information relating to existing research projects being investigated at the regional laboratories; developments that are now commercialized; suggested research projects; agricultural production statistics, and other data which was included in the reports.

V. Recommendations by the Commission

The Commission in its final report made 10 recommendations—7 of the 10 recommendations deal with fostering basic research through grants, fellowships, and scholarships to increase the supply of scientists; Government-industry sharing of research cost; research and development work with new crops; trial commercialization of new products; and incentives to farmers and industry to hasten new crops or new industrial use. The other three recommendations are concerned with financing and administration.

For the administration of the program, there were two alternative proposals:

The first is to establish a five-member nonpartisan Agricultural Research and Industrial Board to be appointed by the President with the advice and consent of the Senate—

and—

The second alternative is to place the responsibility for the program in the Department of Agriculture, under a director with the title of Assistant Secretary of Agriculture who would be in charge of research and education within the Department and would coordinate all agricultural research in the Federal Government.

The Chairman of the Commission advised members of this staff that he is in favor of the first method of administration because USDA has already demonstrated that it moves too slowly in getting its developments into commercial channels. He stated that the alternate method was added because all of the members of the Commission were not in agreement with him as to the administration of a new program.

The 10 recommendations of the Commission are similar in nature to the provisions of Senate bill 3503 that was introduced by Senator Homer E. Capehart (Republican, Indiana) in the 84th Congress, 2d session, but never became law. The recommendations of the Commission are as follows:

1. The Commission proposed that funds for industrial-uses research be increased to not less than 3 times the amounts currently ($16,145,000) available; and that additional sums be provided for new crops research, trial commercialization, development, and incentives.

2. The Commission recommended that Congress declare as a matter of policy the obligation to foster basic research in agricultural products and their uses, and that the administrators, in the allotment of funds at their disposal, be directed to place appropriate emphasis upon research projects having as their objective the discovery of new basic knowledge of farm products.

3. The Commission recommended that administrators be authorized, in addition to using the facilities of USDA, land-grant institutions, and experiment stations, to contract also with other universities and colleges, nonprofit or profitmaking research organizations, private corporations, and foreign institutions especially in countries where Public Law 480 funds may be available.

4. The Commission recommended that the administrators be given authority to share research costs on specific projects with private industries or with other public research agencies where in their judgment such sharing will bring desirable results economically and efficiently.

5. The Commission recommended that the administrators be directed where appropriate to provide research grants, student fellowships, scholarships, and similar aids which, while accomplishing research projects, will also increase the supply of trained scientists. These funds should be allocated so that graduate training may be strengthened in each of the four major agricultural regions.

6. The Commission recommended that an adequate annual investment in research and development for new crops be favorably considered, along with suitable authority to the administrators of the

program to provide incentives where essential to bridge over the "awkward" stage of establishment.

7. The Commission recommended that the administrators of the industrial utilization and new crops program be empowered to enter into appropriate contracts for development of research results into trial commercial scale operations, and that an adequate proportion of funds be authorized to be used for this purpose.

8. The Commission recommended that the administrators of the industrial utilization and new crops program be provided with authority and funds to extend suitable incentives to farmers or to industry where appropriate to hasten the establishment of a new crop or of a new industrial use, where such appear likely to lead to durable additional markets, and for rapid disposal through industrial channels of accumulated surpluses.

9. The Commission recommended the creation of a nonpartisan board with 5 members to be appointed by the President by and with the advice and consent of the Senate, 1 of whom shall be an Assistant Secretary of Agriculture; the Board shall be known as the Agricultural Research Industrial Board.

10. The Commission recommended that 15 percent of the annual gross receipts from customs revenues be allotted to the administrators of the industrial utilization and new crops program for carrying out the proposals. Authorization should be provided whereby such funds could be carried forward in amounts not to exceed $150 million. Continuity of funds will greatly improve the ability to plan and execute both research and followup actions.

The Commission did not presume that it possessed either competence or authority to outline in elaborate detail the projects which should be studied. The Commission stated that this should be the duty of the administrators responsible for an enlarged program. The Commission did however select illustrative examples for research. It was pointed out by the Commission that the examples were intended to illustrate the wide range of ideas from which research administrators might begin their selections. It was further stated that they were not to be considered as project descriptions, but are proposals for investigation in broad areas which in the Commission's judgment seemed to promise fruitful results.

The final report set out 59 illustrative examples of suggestions for industrial uses research. These may be broken down by commodity as follows:

Cereal grains	15	Forage crops	1
Cotton	8	Fruits and vegetables	1
Oilseeds	5	Potatoes, white	2
Meat and byproducts	7	Poultry and eggs	1
Tobacco	3	Crop residues	3
Wool and mohair	4	Forest products	6
Dairy products	1		
Sugar	2	Total	59

Several of the research projects illustrated are in the area of milling and processing; cultural collection; basic research to determine the physical and chemical composition of the commodity; economic and marketing studies; and general research problems. They are basic to a long-range research program and cannot be considered specifically directed to solve an immediate surplus problem. Most of these re-

search projects illustrated, and probably all of them, are in some stage of research at the present time at one or another of the four regional utilization laboratories of USDA. The Commission in illustrating these projects has given emphasis to an expansion and intensification of an existing program in basic research. Prediction of an economic commercialization of any one of the projects based on the limited research that has been conducted so far would be purely speculative.

The Commission also presented 11 new crop projects which should be considered for research. These crops are not actually new to agriculture since they are being produced in limited quantities in the United States at the present time and were mentioned in a survey made by USDA in 1939. The projects illustrated by the Commission relates to improved breeding, culture, harvesting, utilization, and economics. The Commission did not arrive at a conclusion that these crops would immediately replace existing crops on an economical basis but recommended additional studies and incentives for basic research in this field.

The Commission furnished 19 examples of projects for which commercial development should be supported. It would appear that these projects are beyond the basic research stage at the regional industrial utilization laboratories of USDA and are ready for pilot-plant operation, market investigation and test, and economic study. The 19 projects apply to the following commodities:

Cereal grains	5	Wool	1
Oilseeds	2	Dehydration equipment	1
Cotton	7		
Hides and skins	2	Total	19
Fats	1		

8. The present research on several of these projects as discussed in the individual task-group reports indicate that because of the high cost of agricultural raw materials it may not be possible to compete economically with natural raw materials. For this reason additional research has been recommended to promote further studies in order to lower production costs or impart superior characteristics of the product.

It would appear that if the development has approached economical commercialization and agricultural raw materials are in sufficient supply, private industry would seek these discoveries unless the capital outlay for manufacture of the product is prohibitive.

The Commission also illustrated 17 examples of food and feed projects for research and development to improve quality, extend markets, and effect economy in production. Since a study of the food and feed uses of agricultural products was not a requirement of the Commission and since by its own statement that the momentum of improved agricultural techniques appear certain to outpace the population increase, little can be expected from this source to help alleviate the burdensome surpluses that are presently in inventory.

VI. Senate Bill 3503, 84th Congress, 2d Session

In the 84th Congress, 2d session, Hon. Homes E. Capehart (Republican of Indiana) introduced a bill to provide for a scientific study and research program for the purpose of developing increased and additional industrial uses of agricultural products so as to reduce surpluses

of such products and to increase the income of farmers, and for other purposes.

This bill, as introduced, provided for many of the items that have subsequently been recommended by the Commission in its report. The bill provided for the creation of an Industrial Agricultural Products Administration to administer the program; the use of existing facilities and personnel; construction of new facilities and hiring additional personnel as needed; maintain and expand pilot plants; contract with individuals, firms, institutions, and organizations, public and private, including land-grant colleges and universities; incentive awards; and grants to accredited schools and universities for fellowships and scholarships in research. The bill also proposed that there be appropriated the sum of $100 million annually to finance the program.

Hearings were held on July 6, 1956, before the Senate subcommittee of the Committee on Agriculture and Forestry regarding the bill. Generally the statements of witnesses at this hearing were in favor of some type of research program; however, several witnesses expressed the opinion that it should be started on a modest scale.

Excerpts of some of the letters introduced and statements filed at this hearing disclose a need to evaluate a crash program very closely prior to introducing legislation or appropriating funds to launch a program for research in the industrial use of agricultural products. Portions of certain letters and statements illustrating the problems in establishing a crash program are being set forth.

A letter dated June 18, 1956, from W. V. Lambert, dean and director, College of Agriculture, University of Nebraska, mentions the following:

> As the bill now stands it appears to repeat, to a great extent, the legislation that created the large regional laboratories, now under the administration of the United States Departmen of Agriculture. The primary purpose of these laboratories was to develop industrial uses for farm residues and surplus farm commodities. These laboratories are well equipped and staffed for much of the practical application of basic information. In fact it would appear that these laboratoriees have exhausted the possible practical problems and have had to resort to basic and fundamental studies in order to obtain leads for investigating the areas for which they were originally created.

A letter dated May 14, 1956, from John W. Headley, president, South Dakota State College of Agriculture and Mechanical Arts, points out that the value of a crash program may be somewhat doubtful. He stated it is relatively easy to design uses for agricultural products and to work out the conversion processes but it is more difficult to overcome such factors as:

1. The need of material for soil building.
2. The costs of collecting and assembling the commodities over large areas.
3. The relatively high cost of producing raw products.
4. The relatively low cost of competitive raw materials such as air, sea water, coal and crude oil.

Mr. Headley states that a crash research program would encounter certain difficulties. These include:

1. The program of personnel. Scientific personnel are in short supply. A crash program would encounter personnel difficulties since scientists cannot be trained on a crash basis.
2. The problem of administration. A program of this magnitude would involve a great deal of administration. To avoid bureaucratic waste it should be

planned to fit in with existing research facilities and not compete with or duplicate them.

3. The element of chance. Any research program involves a great deal of uncertainty. A crash program of this magnitude may fail. If so, the public would probably be reluctant to support any research of this kind in the future.

A statement filed by J. Carroll Bottum, professor of agricultural economics, Purdue University, is quoted in part as follows:

However, in appraising this proposal as a solution to the agricultural problem we must look at the obstacles which must be overcome. One of these is finding uses for agricultural products in industry which can carry the relatively higher costs involved when agricultural products are used as a source of supply. Agricultural products and byproducts must be assembled from many individual farm units. This is now expensive compared to taking the organic materials from centrally located supplies like from a well, a mine, or a forest. Either we must discover new industrial products which can best be produced from agricultural products and which are of sufficiently high value to absorb the higher costs involved when agricultural products are used as sources of supply or we must discover new lower cost processes for transforming agricultural products to industrial uses relative to the cost of transforming materials from other competitive sources into the same quality industrial product.

A statement filed by George L. McNew, managing director, Boyce Thompson Institute for Plant Research, Inc., Yonkers, N. Y., reads in part as follows:

According to the best estimates available from research organizations in industry, land-grant colleges, and private research institutions, a budget of this dimension would call for—

1. A capital outlay of approximately half a billion dollars for physical plant, furniture, and scientific equipment.
2. Employment of a staff of senior scientists of about 3,500 members with training of Ph. D. or its equivalent.
3. Procurement of about 5,000 technical aids with bachelor of science or master of science degrees.
4. Assembling a staff of about 6,000 subprofessional people for service and maintenance of facilities.

The question immediately arises as to where the Administrator is to find 8,500 technically trained people with the particular skills required. They simply are not available regardless of whether the research is organized as a separate new institute, by expansion of the four regional laboratories, or by placing contracts in existing institutions outside United States Department of Agriculture.

VII. Separate Reports of the Individual Task Groups of the Commission

The final report of the Commission presents the following question for discussion:

Can the economy develop profitable industrial markets capable of obsorbing enough of the excess farm production to minimize, possibly even to eliminate, the need for costly restrictions, supports, and surplus-disposing operations?

To this question the Commission answers an emphatic "Yes," provided the necessary steps are taken to make possible and encourage such a development. This optimistic viewpoint is not fully supported by the findings of the individual task groups based upon selected projects which will be summarized later in this section of the report.

It was also noted that the Commission and some of the task groups pointed out specific directions in which the qualities of food and feed items may be improved and their markets enhanced, and have included research suggestions to this purpose. Although the duty imposed upon the Commission by law eliminated a study of food and feed uses,

the Commission viewed the intent of Congress as being any use which encourages the total expansion and improvement of markets for agricultural production.

It was also noted that the task groups were organized to study nearly every known commodity, some of which have only seasonal surplusses and others no major surplus. The law establishing the Commission directed the Commission to make recommendations which—

will bring about the greatest practical use for industrial purposes of agricultural products—

and did not specifically identify the agricultural products. It would appear that Congress in introducing this legislation was seeking a solution to the surplus problem by attempting to find a major industrial use which could consume large quantities of grain and cotton and were not looking for a recommendation of a program to enhance and broaden an existing research program now being administered by USDA. This observation is based partly upon the stated duty of the Commission to recommend such uses as—

in the manufacture of rubber, industrial alcohol, motor fuels, plastics, and other products—

(possibilities for utilization of some of our large surpluses).

The discussion of the individual task-group reports will be limited to those reports dealing with some of the cereal crops and cotton since it is believed that they will be of major interest to the committee.

A. Report of the task group on industrial use of grains (other than alcohol)

In the summary of this report the task group stated that—

in certain cases, the market value of grains for agricultural use is too high to permit them to compete economically with other raw-material sources, such as petroleum gases.

The group points out that "there is need for research of both fundamental and utilization nature, which research will lead to new and economic uses for grains by taking advantage of their inherent values." The task group also stated that at the present stage of development research our industries are now utilizing agricultural products to the greatest extent that a profitable use can be made. There is no thought that, either through prejudice or lack of initiative, industry is failing to employ to the fullest extent agricultural commodities. The group stated that they must come to the conclusion that, in the existing industrial economics, and at the existing prices for agricultural commodities, industry cannot significantly increase the use of the commodities.

The task group also mentioned that only about 20 percent of the funds now spent on research by USDA are in the field of utilization research. They stated that under the present circumstances they feel that this represents an imbalance, which should be corrected by increasing emphasis toward utilization research.

The task group referred to the several bills which have recently been introduced in Congress to launch a large and costly research program. The group urged that caution be exercised in spending such large sums of money. They stated that it is advisable that research projects be selected with care, that fellowships be placed where

they can be of most benefit, and that, in view of the present known shortage of scientific manpower, care be exercised in attempting to try to employ a great number of scientifically trained people at one time. The group further stated that the expenditure of large sums of money on agricultural research is no guarantee that worthwhile results will be obtained. The purpose of the work is to assist in the disposing of the farm surplus and only those projects should be undertaken which show sufficient prospect to justify the estimated expenditure.

The report of the task group on industrial use of grains (other than alcohol) contained individual reports on certain grains. Certain statements contained in the individual reports may be of interest to the committee.

1. *Report on wheat and wheat flour (other than fermentation).*—The foremost factor responsible for the relatively small amount of wheat going to industrial use at the present time is, the fact that wheat is a food grain and normally commands a food-grain price. Whenever wheat is selling at a lower price, industry must compete with the feed market for the wheat. Thus, availability of wheat at a price far enough below that for food grain has always been uncertain so it is better for industry to depend on a feed price grain such as corn. The task group stated that this economic hurdle has slowed technical research efforts in the past to develop industrial uses for wheat.

The report stated that when appreciable amounts of starch are used in the wood-products industry, the wood becomes susceptible to insect and fungal attack, particularly when moisture is present in the wood. It is not known whether starch is now used in wood products, except possibly as an adhesive. At the present time, starch is not normally used as a plywood or wood glue for the reason that starch adhesives are not water resistant and lack the required strength properties. The group reported that there appears to be no present possibilities of a large industrial use of wheat starch in the wood-products industry unless starch adhesives are developed which can compete with the synthetic glues in usefulness and cost.

The report stated that several proteins, including wheat protein, have been made into textile fibers. The quantities produced are understood to be more experimental than commercial and it is assumed by the group that the economic factors are deterring commercial feasibility. The group also pointed out that such fibers would be competitive with other agricultural fibers, including wool, cotton, and linen.

The report stated that the price of wheat, traditionally a food grain, does not allow this commodity under normal conditions to compete with corn as a commercial source of starch.

The task group pointed out that a recent development at the Northern Utilization Research Laboratory, Peoria, Ill., which provides a low-cost process for chemically altering starch (to dialdehyde starch), is expected to provide the chemical industry with a new series of potentially important raw materials from which other processes and products, important to a number of industries, may be developed. Wheat starch fits readily into this reaction—as do corn and other starches. At present most of the starch and starch-based products are made from domestic corn, and for wheat to compete it must be available to users at a price pound for pound with corn.

2. *Report on grain fermentation.*—This task group did not take up the use of grain in the production of industrial alcohol (ethyl alcohol) since it was handled by a separate task group and will be mentioned later in this report. The production of ethyl alcohol represents the largest actual and potention use for grains in fermentation.

The group did concern itself with the production of butyl alcohol and other solvents. Corn and other grains were originally used for this fermentation, but gave way to molasses which was available at a much lower equivalent price than corn. Since molasses has climbed in price because of its increased use in feed the principal competition now is petroleum sources. The group estimated that if corn were used, giving full credit for all the hyproducts, the price of corn would have to be at least no more than one-half the present quoted price delivered to offer sufficient incentive for its use.

The group stated that they believe there is no way in which new research can stimulate this use, inasmuch as a great deal of research has been done by the industry in past years. They also stated that they know of no solvents other than butyl alcohol (and the concomitant ethyl alcohol and acetone) which could be produced in volume from agricultural sources.

The group reported that there are certain acids made by fermentation, among which are citric, itaconic, gluconic, and oxalic. The report stated as far as they knew, molasses is used as the basic raw material for the production of these, and there seems no reason to expect, under present conditions, that the manufacturers would wish to change to other agricultural raw materials.

In the production of antibiotics and vitamins by fermentation the task group reported that they do not represent large-volume outlets. They also said that it is difficult to see how Government-sponsored research would increase the use of agricultural products in this field. A vast amount of private industrial and pharmaceutical research has been done, and is still going on, with the aim of improving production costs and bringing out new products.

3. *Report on oats, sorghum, barley, and rye.*—The separate report on oats, sorghum, barley, and rye stated that except for sorghum, which can be processed and used in much the same fashion as corn, the development of increased industrial uses for the others is not promising. The conventional wet-milling process for starch production is not directly applicable on an economical basis for production of starch from oats, barley, and rye, although the process is used, with slight modification, for the industrial production of grain-sorghum starch.

Appendix E of the report of the task group on industrial use of grains (other than alcohol) is a compilation of proposed research projects on applied, developmental, and basic research, both short and long term. This entire appendix was prepared by the USDA, Agricultural Research Service, Utilization Branch.

B. Report of the task group on industrial alcohol from grain

The summary of this task-group report stated that "cost of production is basic to all uses considered for industrial alcohol."

The summary of the report further stated that the following conditions are basic to establishing any effective program for converting surplus grain into industrial alcohol:

1. Grain would need to be made available at low and stable prices over a continuing period in order to establish end uses and to permit amortization of new plants and facilities.
2. Developments through subsidy should be done in such a way that they will not adversely affect existing industries using domestic raw materials that are now in ample supply.
3. Participation by industry should be established through program planning and development.
4. The best opportunities for use of industrial alcohol lie in those industries that now are or soon will be expanding to meet new market demands.

Detailed calculations by the task group illustrate that the cost of converting corn to 1 gallon of 95-percent alcohol including profit and plant amortization would be 10.9 cents after giving credit for by-product protein feed, which can be sold as animal feed at approximately $50 a ton. To make anhydrous alcohol from 95 percent alcohol it would cost an additional 2 cents a gallon. These figures exclude any value for grain delivered to the distillery. Grain prices fluctuate from year to year and season to season but present prices of corn and wheat will average approximately $1.25 to $2 per bushel. A bushel of grain produces approximately 2.7 gallons of 95-percent alcohol. The cost of the raw material (grain) would average between 46 cents and 74 cents per gallon. The total cost of producing 95-percent alcohol including grain cost would be at least 56.9 cents per gallon or more.

For comparison, the cost of producing synthetic alcohol made from ethylene derived from petroleum or natural gas is estimated to lie between 13.6 and 33.1 cents a gallon. The task group made the statement—

alcohol made from grain therefore cannot compete on an economic basis with alcohol made from ethylene under present or foreseeable conditions.

The task group considered all current and potential uses for alcohol but found only three of sufficient interest to warrant analysis.

1. *Butadiene (for rubber) from 95-percent alcohol.*—The following analysis was made by the task group:

At the current price of 15 cents a pound for butadiene, alcohol at 23.4 cents a gallon at the plants could be used for production. Allowing 3 cents a gallon for transporting alcohol from distillery to plant and 10.9 cents a gallon for converting corn to 95-percent alcohol, the equivalent price for corn at the distillery would be 25.6 cents a bushel. These figures do not include any allowances for depreciation, royalty, operating fee, or profit. It is assumed these charges will be covered by two factors. One is improved operating results when the plants are in steady operation for an extended period and the other is the recovery of byproducts which will be feasible with steady operation.

However, alcohol could not compete with petroleum-produced material from existing plants, already depreciated, unless the price of alcohol at the butadiene plants dropped to 12.4 cents a gallon, which is equivalent to free corn at the distillery.

The task group stated that the synthetic-rubber industry is firmly based on economical butadiene produced directly from petroleum raw materials. This process is well established, and costs are very low. The raw material is abundant and the price is stable. As a result, under present economic conditions the growth potential for industrial

alcohol for this outlet does not exist. It is only under conditions of heavy subsidy that butadiene can be produced from industrial alcohol.

2. *Ethylene (for plastics) from alcohol.*—The task group reported that in competition with ethylene from natural sources at 5.5 cents a pound, the price payable for alcohol delivered to the ethylene plant is only 16.9 cents a gallon for zero profit on ethylene manufacture and 12.9 cents for a 10-percent profit after taxes on manufacturing facilities. After a modest allowance for freight on alcohol from distillery to plant, and at the production costs that have been agreed to by the industrial-alcohol task group, this is equivalent to only 10.8 cents a bushel for corn delivered to the distillery at zero profit on ethylene manufacture and corn would have to be delivered free to the distillery if the manufacturer is to earn an after-tax profit of 10 percent on investment. From these figures, it is obvious that the use of agricultural alcohol to manufacture ethylene would not be attractive except on a comple-subisidy basis, and in line with current practice, contracts for the purchase of ethylene are made only on a long-term basis (15 years).

3. *Motor fuels from alcohol.*—Motor fuel is customarily made by combining different blending stocks in various proportions to obtain the required performance characteristics in the finished motor fuel. The particular base stocks may differ at various refineries and in various parts of the country. Each refiner will adjust the relative proportions of the blending stocks available to him in order to satisfy the fuel quality requirements of motor vehicles. Anhydrous ethyl alcohol can be used as one of the stocks in blending motor fuel to the desired specifications, but it is economically feasible to do so only if it can compete in price with other available blending stocks. Butane is usually the blending stock which alcohol would displace, and with which it must compete.

To compete with butane, alcohol would need to be delivered to a blending plant at 5 cents a gallon. Since the task group has determined that anhydrous alcohol would cost about 12.9 cents a gallon this would be 7.9 cents less than the cost of fermenting grain to alcohol. An additional charge of 3 cents a gallon for freight from the distillery to the blending plant would make the loss 10.9 cents a gallon. This corresponds to a loss of 29.4 cents a bushel of corn fermented without any payment for the grain. Even if alcohol should bring 13.5 cents a gallon, the full value of bulk motor fuel, this would correspond to a loss of 6.5 cents per bushel of corn.

The task group also reports that the relative value of ethyl alcohol in motor fuel has decreased year by year as the octane number of available motor fuel has increased. Now that the octane numbers of premium motor fuel are approaching 100 and the proportion of premium fuel is rapidly increasing, ethyl alcohol has no premium-blending value. It is worth still less in diesel-fuel blends because of its low octane number and its poor ignition characteristics. The task group stated that industrial alcohol has been produced from grain for a number of years by using well-established fermentation processes that are presently regarded as efficient. They said that it is doubtful that added research would materially change these basic processes.

The final report of the Commission reported that industrial alcohol as a blend with gasoline for motor fuel on a national basis is not practicable because—

1. No blend of less than 10 percent would be practical or effective.
2. A 10-percent blend of industrial alcohol would require in excess of 2 billion bushels annually, which is more than the current surpluses of cereal grains.
3. Plant capacity for processing this quantity of grain would cost in the neighborhod of $2 billion and would have to be built with Government funds.
4. The total cost to the public through the increase in the price of motor fuel would be in excess of $1 billion annually.

In view of these facts, the present state of scientific knowledge, and costs involved, the Commission found it impracticable to recommend an alcohol motor-fuel program.

C. Report of the cotton task group

The cotton task group found that the greatest needs and biggest opportunities for increasing cotton consumption are in present uses, and can be realized mainly through quality improvements and cost reductions that require (1) a greatly expanded and more efficient research program, and (2) improved technical-information services to increase the use of research findings.

The report further stated that careful study leads to the conclusion that the possibilities are extremely limited in developing truly new uses for cotton, desirable as it would be. The best potentials for expanding cotton consumption are in increasing the total market for textiles and in increasing cotton's share of the total. The factors that must be considered are price, quality, and promotional effort.

The group reported that if the farmers' costs and the costs of services between the farm and the mill can be reduced so that cotton can be made available at a lower price, the improved competitive position of cotton and cotton-fiber products will have a strong influence toward increasing cotton consumption. If cotton's present desirable qualities can be further improved, or if properties not now possessed to a major degree can be imparted, cotton's utility value will be increased and its consumption potential greatly improved. Attainment of both objectives will make it possible to promote greater use of cotton products successfully.

The report stated that utilization research relating to new uses is expensive and difficult to find and develop, and when developed is as readily or more readily attacked by competitors than those markets in which cotton has been long entrenched. To the extent that research funds are spent in research on new uses, the program to maintain and expand the older uses will be weakened. Cotton's gains in recent years have come from new developmnts and improvements in existing markets.

The task group noted with serious concern that whereas the total research funds of USDA have increased 68.9 percent since 1951, the cotton-research funds within that organization have increased only 56.2 percent. The result has been that the proportion of USDA research funds going to cotton research has decreased from 8.2 percent

to 7.6 percent. This has occurred in view of the fact that no other farm commodity faces such intensive competition from industrially produced materials supported by tremendous research resources.

VIII. Regional Research Laboratories of USDA

Section 202 of the Agricultural Adjustment Act, approved February 16, 1938, authorized the establishment of 4 regional research laboratories, 1 in each major farm-producing area. The laboratories were to conduct research into and develop new scientific, chemical, and technical uses and new and extended markets and outlets for farm commodities and products and byproducts thereof. The research and development was to be devoted primarily to those farm commodities in which there are regular or seasonal surpluses, and their products and byproducts.

In the discussion of the appropriations for the 4 regional research laboratories, Congress raised certain questions regarding the status of research in the field of industrial utilization of agricultural commodities and provided a sum not to exceed $100,000 to finance a survey to determine the location of the laboratories, the scope of the research investigations, and the coordination of the research work then being carried on.

The USDA undertook such a survey and prepared a report in 1939 which was printed as Senate Document No. 65, 76th Congress, 1st session. The USDA in conducting this survey visited every State and interviewed representatives of about 1,300 research laboratories, educational institutions, and agricultural organizations. There was obtained from these sources a fairly complete knowledge of research activities then being investigated in the United States and many hundreds of suggestions regarding needed research work.

The material collected was published in Senate Document No. 65 in considerable detail with a breakdown by commodity. The commodities reviewed include cereal crops; fiber crops; fruits; vegetables and nuts; root crops; forest products; dairy products; poultry and eggs; animal fibers; hides and skins; and other subject matters. With respect to each commodity there is a discussion of the research actually in progress at the time as well as suggestions and recommendations for new investigations. The analysis of the commodities, research in progress, and suggested new research investigations as outlined in the USDA survey in 1939 is similar in composition to the material set forth in the Commission's final report. It would appear after comparing the two documents, which have an elapsed time of 18 years, that many of the research projects considered for investigation in 1939 are again being recommended for investigation in 1957 by the Commission.

Dr. G. E. Hilbert, Research Director for the Commission, and Assistant Administrator of the Utilization Research and Development Branch, Agricultural Research Service, USDA, advised that the Commission's report did not recommend any new projects which have not been known to the USDA. He advised that the men who worked on the task groups were selected because of their familiarity with a particular commodity and the particular projects recommended for research investigation for each commodity are well known to people

in industry, science, and the USDA. He further advised that projects mentioned in the Commission's report are projects which the regional laboratories have conducted limited research on or will conduct research on in the future when funds and personnel are available. It was pointed out by Dr. Hilbert that each task group had ot its staff at least one technical man from a regional laboratory. A lengthy list of recommended projects was prepared by USDA for the Commission but, according to Dr. Hilbert, the Commission had the final decision in determining which projects to include in the interim and final reports.

It was also observed by this staff that the survey report of USDA in 1939 mentioned new crops as replacement crops which should be investigated. The Commission's report mentions several of the same crops for possible investigation to divert the surplus crops. Dr. Hilbert agreed that the crops mentioned in the Commission report are not actually new since the crops are in limited production now in the United States. He stated however that it is possible to expand the production of these crops and find new uses for the crops; however, considerable research will have to be done to explore the potential.

Upon analyzing the 1939 survey conducted by USDA and comparing the suggested projects with the Commission's report the question arises as to what solution has been found during the past 18 years for utilizing agricultural products when they are in surplus.

The USDA claims that developments resulting from utilization research that are now in commercial use number 141. A review of these developments shows that many of the developments have been in the production field, processing techniques, or new and improved food uses, and do not contribute a great deal to the utilization of surplus grains or fibers.

The USDA contends that shortly after the laboratories were completed World War II wiped out the surpluses and their program shifted to research on extending existing supplies, developing substitutes, conducting research on dehydrated foods for use by the armed services, and other war uses.

At the end of World War II the USDA again started to emphasize the long-range program of research to develop new and extended uses for surplus. The Korean conflict interrupted the program once again causing a shift to defense activities. It was not until 1953 that the laboratories were able to direct their research investigations to the surplus problem. The USDA takes credit for the development of research dealing with many perishable commodities, such as the frozen food processes and dehydration of potatoes, tomatoes, and dairy products to powder form for subsequent reconstitution.

IX. Annual Report of USDA on Utilization Research

Section 201 (b) of the Agricultural Act of 1956 requires the Secretary, USDA, to submit annually a report of operations for disposal of stocks of agricultural commodities held by the Commodity Credit Corporation. As a part of the report the USDA is required to furnish "a detailed program for the expansion of markets for surplus agricultural commodities through marketing and utilization research and improvement of marketing facilities."

A report prepared by USDA in April 1957 and released in June 1957 discussed the scope and magnitude of the USDA utilization research activities. The USDA program looking toward development of new and expanded uses for agricultural and forest products is conducted in four divisions of the Agricultural Research Service and in the Forest Products Laboratory and other smaller installations of the Forest Service. The report sets forth under appropriate headings a number of potential increased uses for crop, livestock, and forest products, and the research to develop them. The USDA states "research is in progress in all, or substantially all, of these areas to the extent of available resources."

The USDA states that "the regional research laboratories are substantial scientific institutions, each consisting of 72 (in 1 case 96) laboratories with appropriate office space, and with provision for development research on a pilot-plant scale in a separate wing set apart for the purpose. They are adequately equipped on a continuing basis for scientific research of the highest order. Key research men and women are outstanding in their fields and experience has shown that wholly competent staffs can be recruited and maintained for the interesting and rewarding work of the laboratories if salaries near a competitive level can be paid."

The following tabulation shows the locations of each division, the numbers of technical personnel, and the commodities under investigation as shown in the report prepared by USDA in April 1957:

Division	Principal and field locations	Professional scientific personnel	Commodities
Eastern Utilization Research and Development Division.	Wyndmoor, Pa	171	Fruits and vegetables; dairy products; animal fats; hides; tanning materials, and leather; honey; maple products; tobacco; wool byproducts.
	Washington, D. C	40	Dairy products.
	Beltsville, Md	15	Meat.
Northern Utilization Research and Development Division.	Peoria, Ill	171	Cereals; forage grasses; oilseeds; new crops.
Southern Utilization Research and Development Division.	New Orleans, La	242	Cotton; oilseeds; fruits; and vegetables; rice.
	Olustee, Fla	15	Naval stores.
	Winter Haven, Fla	6	Fruits and vegetables.
	Bogalusa, La	3	Tung.
	Houma, La	1	Sugarcane.
	Raleigh, N. C	2	Vegetables.
	Weslaco, Tex	4	Fruits and vegetables.
Western Utilization Research and Development Division.	Albany, Calif	201	Fruits and vegetables; wheat, rice, poultry, and eggs; wool and mohair; sugar beets; alfalfa and other forage crops; new crops.
	Pasadena, Calif	8	Fruits and vegetables.
	Prosser, Wash	3	Do.
	Puyallup, Wash	2	Do.
Forest Products Laboratory	Madison, Wis	150	Forest products.
Total		1,034	

The United States Department of Agriculture points out that resources for improved utilization of agricultural commodities have been augmented materially by the Agricultural Adjustment Act of 1938, which established the four regional research laboratories, and by the Research and Marketing Act of 1946. The following table

shows the obligations for research on utilization of agricultural and forest products since 1947:

[In thousands of dollars]

Year	Agricultural products[1]	Forest products	Total	Year	Agricultural products[1]	Forest products	Total
1947	5,848	1,552	7,400	1954	8,097	1,215	9,312
1948	7,944	1,259	9,203	1955	9,182	1,261	10,443
1949	8,331	1,193	9,524	1956	9,581	1,572	11,153
1950	8,942	1,424	10,366	1957	12,321	1,956	14,277
1951	8,385	1,298	9,683	1958 budget estimate	14,297	2,225	16,522
1952	8,315	1,245	9,560				
1953	8,007	1,253	9,260				

[1] Includes research on strategic and critical agricultural materials and maintenance of library.

The United States Department of Agriculture states that the State experiment station resources directed toward agricultural and forest product utilization research and the development of new crops have increased sharply in recent years. Both Federal and State funds available at the stations are being used for this research, much of which is cooperative among the States and between the States and the United States Department of Agriculture.

The following table shows funds assigned for utilization research at the State agricultural experiment stations for the fiscal year ended June 30, 1956:

Area	Federal grant	Non-Federal	Total
Crop products	$780,508	$1,601,962	$2,382,470
Animal products	688,062	1,061,837	1,749,899
Forest products	45,690	204,238	249,928
Total	1,514,260	2,868,037	4,382,297

The USDA reports that Federal utilization research and development programs are established by administrators and staff using their best abilities and judgment in arriving at a realistic and practical employment of available resources. The needs, opportunities, and selection of areas for research are determined with the advice and assistance of hundreds of well-qualified persons acting as members of USDA advisory committees, industry committees, grower committees, and other official and unofficial bodies, as well as private individuals who confer with the USDA at frequent intervals.

The current as well the the proposed program of USDA includes—

1. Basic and fundamental research on the composition and on the physical and chemical properties of agricultural commodities, their fractions, and derived products;

2. Applied development research on new products, processing, and chemical conversion processes; and

3. Pilot plant and demonstration operations to reduce new product and process developments to practice.

The USDA states that in the applied research program there is a continuing and aggressive program of product, market and economic surveys, and analyses which will (1) assess the economic feasibility of proposed research projects; (2) maintain satisfactory balance between

the technical and economic points of view; and (3) develop short- and long-term forecasts for new and potential markets and requirements, need of new products, and indication of market and use trends.

Set forth below are a number of research projects shown in the USDA report which they believe have high potential for significant expansion of markets for surplus agricultural commodities and which their current programs are designed to contribute basic information looking toward attainment of each of them.

Cereal grains

1. The largest current single use of cereal starches is as sizing and coating agents in the paper industry. There is opportunity to develop superior coating agents for the use of large additional amounts of starch.
2. Starch modified to a form that could be used as an integral part of paper substance, whereby it could help to meet expanding pulp requirements.
3. Modified grain fractions or starch as adhesives or binding agents in the production of insulating board, hard board, particle board, container board, and core stock.
4. Adhesive and colloidal properties of flour and starch indicate their possible utility in the ore industry as briquetting, flocculating, and flotation agents.
5. Starch to be used in making oil well drilling mud adjuncts.
6. Starch in the production of adhesives, coatings, and sizing materials for the expanding paper and textile industries.
7. In the development of soil stabilizing and conditioning agents for roadbuilding and agriculture.
8. Dialdehyde starch has a potential as a plastic raw material and as a rapid tanning agent for leather.
9. Industrial chemicals, such as acids, enzymes, and new polymers.
10. Biochemical conversions by means of controlled fermentations.
11. Industrial use of wheat gluten.
12. Crop residues for conversion into paper, alpha-cellulose, chemicals, and soil-conditioning agents.

Cotton

1. The development of chemical treatments for cotton to give it desirable new qualities such as more resistance to weathering, rotting, burning, and wetting, and for producing improved wrinkle-resistant fabrics of the wash-and-wear type.
2. Develop new machines for producing cotton textiles of higher quality and lower cost.

Wool and mohair

1. In wool processing, improve the modifying and finishing treatments such as shrink resistance, pilling resistance, crease and pleat retention, soil resistance, resistance to yellowing, fastness of dyestuffs to light and washing, and insect and chemical resistance.

Oilseeds

1. Industrial uses of vegetable oils in paints, protective coatings, plastics, plasticizer, special lubricants, resins, and related uses.
2. Industrial uses for edible coating, lubricants for food processing industries, and special shortenings.

3. New industrial outlets for oilseed meals and isolated proteins as adhesives, emulsifiers, foaming agents, and other surface-active agents.

Animal products

1. Development of improved synthetic detergents, emulsifiers, and other surface-active agents based on tallow.
2. Preservative impregnation of lumber.
3. Industrial use as an additive to portland cement and masonry mortar compositions to increase resistance to scaling and deterioration resulting from moisture transfer or freezing and thawing.
4. Fatty derivatives in the formulation of asphalt or bituminous paving mixtures to attain proper association between rock and binder.
5. Chemical modification to yield leathers or other products with new and useful properties and to develop better, quicker and cheaper tanning methods.

This staff is not listing all of the projects mentioned in the USDA annual report nor are all of the commodities mentioned in the report listed. The USDA mentioned many other projects and devoted a separate section to new crops. The purpose of this staff in mentioning any of the projects is to show that the project descriptions mentioned in the annual report by USDA are similar in scope to those mentioned in the Commission's final report.

The USDA stated in its annual report that their program is designed to contribute basic information looking toward attainment of each project. In some cases practical phases are being studied at the laboratory bench. In others, larger scale activities are in progress in pilot plants or through industry, experiment station, or other cooperation. The fiscal year 1958 budget estimates provides for expansion of research on utilization of cereals, cotton, wool, fruits, vegetables, oilseeds, animal fats, and forest products.

X. Commission Recommendation To Increase Funds for Research by Threefold

The Commission proposed as its first recommendation that the funds for industrial-uses research be increased to not less than three times the amounts ($16,145,000) currently available, and that additional sums be provided for new crops research, trial commercialization, development, and incentives.

The Chairman of the Commission advised that the increased recommendation of threefold the amount now available for industrial utilization research in USDA was not arrived at by a cost study. The sum was arbitrarily selected by the Commission as being adequate to launch an expanded program in research.

Mr. Welsh stated that the task groups were asked to make an appraisal of the research needed to develop increased industrial uses and, if possible, to indicate the expenditures which they believe would be necessary to finance the research and development of particular projects. Mr. Welsh stated that some of the members of the task groups made estimates based upon the number of scientists which they thought should be assigned to specific projects and the number of years which, in their opinion, would be necessary to develop each project. Other members did not make such an estimate due to the fact it was impos-

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sible to make a realistic cost appraisal of the time involved or number of personnel required. Mr. Welsh stated that a rough estimate of the total cost to expand a research program in all the areas recommended by the 18 task groups is $211 million annually. The chairman pointed out that it would be impractical to commence at once investigations in all the areas recommended by the task groups and therefore the Commission decided that a lesser sum should be made available to start the program with increased amounts made available in subsequent years as the need may indicate. Mr. Welsh made it clear that he personally is not in favor of making funds available to increase or expand the four regional laboratories of USDA, but rather, these funds should be made available to a new commission to contract with established laboratories in private industry and Government.

The testimony of Mr. E. L. Peterson, Assistant Secretary, USDA, and Mr. B. T. Shaw, Administrator, Agricultural Research Service, USDA, on May 10, 1957, before the Subcommittee on Research and Extension, of the Committee on Agriculture, House of Representatives, 85th Congress, 1st session, inquiring into the Commission's interim report on industrial uses of agricultural products appears to show the USDA views on expanded research.

Mr. Peterson stated that the USDA now has authority to conduct and is conducting the type of research discussed in the Commission's report. Mr. Peterson said that whatever action may be taken to expand research, to increase the industrial use of agricultural products, find new uses, expand uses, or to develop new crops, should provide for the administration and implementation of such effort by the Secretary of Agriculture, utilizing the research organization of the USDA.

Mr. Shaw stated that with present physical facilities, the USDA could increase its research program in the areas of interest to the Commission at the cost of approximately $9 million above the fiscal year 1957 budget ($14 million), about $2 million of which has been requested in the fiscal year 1958 budget. This visualizes an increase of about $6.5 million for new uses of farm and forest products and $2.5 million for research on new crops. Mr. Shaw further stated that while USDA is confident that further expansion of the program could be accomplished through contracts with universities and industry, they are convinced that if the program envisioned by the Commission is inaugurated, the expansion of Federal facilities should be given high priority.

The USDA believes that an expanded program should visualize doubling the facilities of the four regional research laboratories and the Forest Products Laboratory at their present sites. The cost would be about $30 million and the construction would require about 2 years. Upon completion of the expansion of these facilities, approximately $35 million of the funds appropriated could be used to support research in USDA laboratories. Additional funds would be necessary for the research and development program in outside organizations through contracts and grants managed by USDA. Mr. Shaw stated that he does not know of any suggestion made by the Commission that they should do a different type of work than that being done by the USDA four regional laboratories. Mr. Shaw said

that the proposals that the Commission has in its report are expansions of the work that they have underway.

Mr. Shaw stated that an expanded program would continue to provide for research on food and feed uses for agricultural commodities but would be weighted toward research on industrial uses. To implement the program, capable scientific manpower would be needed. Mr. Shaw stated that while the Commission's recommendation to provide a grant, scholarship, and fellowship program would aid materially in providing scientists in future years, authority to pay adequate salaries would still be needed to move the proposed program forward rapidly.

The recommendation for increasing funds for industrial-uses research was a recommendation of the Commission to be made available to a new board to administer and was not intended to be made available to USDA. Therefore, this staff did not make a specific inquiry of the Agricultural Research Service, USDA, concerning any plans it may have to seek an increased appropriation in the amount suggested by the Commission.

The Assistant Secretary of USDA testified on May 10, 1957, as set forth previously, that with the present facilities the USDA could increase its research program by approximately $7 million over the 1958 budget request. Any larger expansion would require enlarging the present facilities. It is not known whether the USDA has revised its estimates since May 10, 1957; however, a newspaper article appearing in the Washington Star on September 19, 1957, states that the Secretary of Agriculture—

> plans to ask Congress to launch a broad and costly drive for expanding industrial use of surplus farm commodities.

The article states that the program will involve substantial increases in spending for research, plus an array of incentives to push scientific discoveries out of the laboratory and into commercial use. The article further states that experts now are working on detailed proposals for submission to Congress next year, and the program likely will be based on recommendations presented last June by the President's Commission on Increased Industrial Use of Agricultural Products.

COMMENT ON REPORT TO THE HOUSE COMMITTEE ON APPROPRIATIONS REGARDING A REPORT TO THE COMMITTEE ON APPROPRIATIONS, UNITED STATES HOUSE OF REPRESENTATIVES, ON INCREASED INDUSTRIAL USE OF AGRICULTURAL PRODUCTS, UNITED STATES DEPARTMENT OF AGRICULTURE

The Department was not involved in the establishment of the Commission on Increased Industrial Use of Agricultural Products nor was it involved in the operation of the Commission or in the development of its procedures. In accord with the authorization contained in Public Law 540, section 209, which established the Commission, the Department provided the Commission with office space and with stenographic and business assistance. In addition, at the request of the Commission, Dr. G. E. Hilbert, Assistant Administrator, Agricultural Research Service, and Dr. S. R. Hoover, Assistant Director, Eastern Utilization Research and Development Division, were de-

tailed to the Commission to serve as Research Director and Assistant Research Director, respectively. Twenty other members of the research staff of the Department were selected by the Commission to serve on the task groups of the Commission. The Commission asked various other members of the Department from time to time for information or assistance in obtaining information. The Department cooperated fully in such instances to assist the Commission in the accumulation of the facts it needed for its study.

Because of its lack of intimate connection with the activities of the Commission, the Department is not in position to comment upon the Commission's operations and procedures. We have, however, studied the Commission's report and also the report of the surveys and investigations staff on the Commission and its report. We have also studied the hearings before a subcommittee of the Committee on Agriculture and Forestry, United States Senate, 84th Congress, on the Capehart bill (S. 3503) which is referred to in the report of the surveys and investigations staff. There are a number of instances where our interpretations and the interpretations made by the surveys and investigations staff of these documents differ in some respects. These differences amount principally to matters of interpretation and judgment. The Department expressed its general reaction to the interim report of the Commission in its appearance before the Subcommittee on Research and Extension of the Committee on Agriculture, May 10, 1957. We are of the opinion that utilization research cannot provide the complete answers to our problems in agriculture, but we believe with equal firmness that utilization research has a most important role to play in advancing the competitive position of agricultural commodities in industrial markets.

A general impression gained from reading the surveys and investigations staff report is that the Department must have exerted great influence over the Commission because there are similarities between the Commission's report, the survey prepared by the Department in 1939 (S. Doc. 65), and the Department's report submitted to the Congress in June 1957 pursuant to section 201b of the Agricutural Act of 1956.

We are not surprised that there are similarities in these reports. The Department's research programs are reviewed regularly by advisory committees composed of representatives of the agricultural producing and processing industry and these same committees counsel with us on the problems facing their segments of agriculture and the direction our programs should take to solve them. Many of the members of the Commission's task groups are also members of our advisory committees since these individuals are the national authorities in their respective fields. It is encouraging, therefore, to know that many of the Department's considered views regarding the importance of problems in the utilization field and the research approaches needed to solve them are shared by the members of the President's Commission and the non-Government members of its task groups.

While we cannot embrace all of the recommendations of the Commission, we subscribe fully to its view that a strong research program in the utilization field is a positive means for advancing the welfare,

marketing opportunities, and income of agricultural producers, and for expanding further our economic development. We agree with the Commission that research on new uses and new crops should be expanded. We have recommended in the budget for fiscal year 1959 an increase of $5.8 million for this purpose and, in addition, project the use in fiscal year 1959 of $5 million of Public Law 480 funds to support utilization research under contract or grant in foreign countries, where solution of technical problems associated with our exported agricultural commodities can increase the markets for these commodities abroad.

THE OFFICE OF INFORMATION, UNITED STATES DEPARTMENT OF AGRICULTURE

A REPORT TO THE COMMITTEE ON APPROPRIATIONS, UNITED STATES HOUSE OF REPRESENTATIVES, BY SURVEYS AND INVESTIGATIONS STAFF, NOVEMBER 1957

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II. SCOPE OF INQUIRY

III. OFFICE OF INFORMATION, UNITED STATES DEPARTMENT OF AGRICULTURE (OFFICE)

The Office was organized in 1925 to coordinate the dissemination of information useful to agriculture. It has centralized supervision of departmental publications, current information, and visual aids. As of September 1, 1957, the Office had 231 employees. It operated under a fiscal year 1957 appropriation of $1,325,000.

IV. SPEECHES PREPARED BY THE OFFICE OF INFORMATION

The Office only assists in the preparation of speeches upon specific requests and does not assist in the preparation of all speeches for Department officials. Upon specific request the work of the Office will range from furnishing a few paragraphs to preparing a full text which the speaker may or may not use.

A. Speeches for the Secretary

From January 1, 1953, to September 1, 1957, the Secretary has given 186 speeches. The Office has assisted in preparing, other than distribution, 84 of these speeches. A list of the 84 speeches is set forth. The distribution of the Secretary's speeches is handled by the Office.

B. Speeches for the Under Secretary

The Office has taken little part in the preparation of speeches for the Under Secretary. From January 1, 1953, to September 1, 1957, the Office has assisted in the preparation of eight such speeches. A list of the speeches is set forth.

C. Speeches for Assistant Secretaries

The Office has no record which shows assistance in the preparation of speeches for the Assistant Secretaries except for Mr. Ervin L. Peterson. From January 1, 1953, to September 1, 1957, the Office assisted Mr. Peterson in eight speeches. A list of the speeches is set forth.

V. DISTRIBUTION CHANNELS AND COST OF SPEECHES

A. Distribution channels

The Office distributes speeches of departmental officials through general outlets in press, radio, and television news fields and other outlets interested in agricultural matters. The distribution of speeches by the Secretary has ranged from 400 to 6,700 copies. The Office has distributed all except 19 of the 186 speeches of the Secretary.

B. Distribution costs

Ten speeches given by the Secretary during the years 1953 through 1957 were selected at random for the purpose of determining the extent and cost of their distribution. Distribution cost of sampling selected amounts to $246.58 per speech.

I. Directive

By directive dated July 5, 1957, this staff was instructed by the Committee on Appropriations to conduct an inquiry into the use of the Office of Information of the United States Department of Agriculture (USDA) in the preparation and distribution of speeches for the Secretary, Under Secretary and Assistant Secretaries.

II. Scope of Inquiry

The inquiry included the obtaining of the number of speeches prepared for the Secretary, Under Secretary, and Assistant Secretaries of the USDA by the Office of Information (Office) from January 1, 1953, to September 1, 1957. A determination was made of the number of these speeches prepared by the Office for the above-mentioned officials upon its own initiative and the number in which assistance was rendered upon specific request from such officials. Ten speeches of the Secretary were selected at random by this staff and the cost and extent of their distribution were determined.

III. Office of Information, United States Department of Agriculture

The Office was organized under its present name in 1925 to coordinate in the USDA the dissemination of information useful to agriculture. At the present time the Office is administered as one of the staff agencies which make up the departmental administration group and the overall supervision of this Office is under the Administrative Assistant Secretary.

The Office serves as a staff information office to the Secretary of Agriculture and provides centralized supervision of all information activities for the USDA. In carrying out this function it is necessary that the Office work closely with the administrative and information staffs of the various agencies of the USDA. The work of the Office falls into three general categories: (1) Publications, (2) current information, and (3) visual aids.

Publications work of the Office consists generally of policy clearance and the control of all publications of the USDA. It also handles the publication and dissemination of the various printed documents which are distributed by the USDA.

Current information includes chiefly working with the press, radio, television, and other media outlets. Materials are prepared for dissemination to the daily and periodical press, local and national and television outlets and other channels which disseminate information concerning agricultural matters.

Visual aids serve all phases of the Department's information and educational work through motion pictures, exhibits, illustrations, and photographs.

As of September 1, 1957, the Office had 132 employees which were paid from appropriated funds. In addition, there were 99 employees whose salaries were paid from working capital funds. These latter employees were engaged in photographic, art, graphic, and motion picture production work on a reimbursable basis for agencies of the USDA, as well as for some other Government agencies. The Office operated under a 1957 appropriation of $1,325,000.

IV. SPEECHES PREPARED BY THE OFFICE OF INFORMATION

Mr. R. Lyle Webster, Director, Office of Information, advised that the Office never prepares speeches upon its own initiative or without a specific request for assistance from some official of the Department. Mr. Webster pointed out that there are no set procedures followed by his Office in the preparation of speeches for officials of the USDA. He stated the activity of the Office in this field has ranged from the preparation of only a few paragraphs of background material which the speaker may or may not incorporate into his prepared text, to the writing of a full draft of a text which again the speaker may only use in part. He stated that the work of the Office may also consist of rewriting or editing speeches which have been drafted by officials of the Department.

Mr. Webster upon request caused a search to be made of available records in the Office and as a result furnished a list of all speeches given by the Secretary, Under Secretary, and Assistant Secretaries from January 1, 1953, to September 1, 1957, in which the Office had participated to some extent. He pointed out that many speeches are prepared by the Secretary, Under Secretary and Assistant Secretaries in which the Office takes no part with the exception of their distribution.

A. Speeches for the Secretary

Mr. Webster furnished a list of the speeches given by the Secretary from January 1, 1953, to September 1, 1957, which were a matter of record in the Office. This list shows that the Secretary has given 186 speeches during this period of time. Mr. Webster advised that the Office had taken some part in the preparation of 84 of the 186 speeches; however, the distribution of the Secretary's speeches was handled by the Office.

There follows a schedule showing this participation by years:

Year:	*Number of speeches*
1953	21
1954	21
1955	11
1956	20
1957 (to Sept. 1, 1957)	11
Total	84

At the request of this staff, the Office prepared the following list which shows the place, date, organizations addressed, and the major content of the 84 speeches:

Place	Date	Organization	Major content
West Lafayette, Ind	Apr. 21, 1953	National Institute of Animal Agriculture.	Farm programs and agricultural research.
Washington, D. C	Apr. 30, 1953	Graduate School, Department of Agriculture.	Agricultural policy; legislative, executive relationships in administration of programs.
New York, N. Y	May 11, 1953	National Conference of Christians and Jews.	America's freedom and standard of living.
Cleveland, Miss	May 21, 1953	18th annual meeting of Delta Council.	Solving agricultural problems.
Deadwood, S. Dak	May 27, 1953	South Dakota Livestock Growers Association.	Farm programs; accomplishments.
Omaha, Nebr	June 11, 1953	Annual meeting of Nebraska Stockgrowers Association.	Efforts to assist livestock industry.
Lubbock, Tex	June 27, 1953	American Cotton Congress	Cotton industry's problems.
Fresno, Calif	July 16, 1953	Agricultural Council of California, California Farm Bureau Federation, California State Grange, California State Chamber of Commerce, California State Board of Agriculture.	Building workable farm programs.
Columbia, Mo	Aug. 12, 1953	American Institute of Cooperation Working Together.	Farm programs, general.
Mineral Springs, S. C	Sept. 1, 1953	Darlington County Agricultural Society.	Making agriculture stronger.
Washington, D. C	Sept. 22, 1953	American Bankers Association.	Farm problems and programs; general, and part bankers can play.
Niagara Falls, N. Y	Sept. 28, 1953	National Association of Commissioners, Secretaries, and Directors of Agriculture.	Federal-State agricultural relationships; reorganization; farm programs.
Philadelphia, Pa	Oct. 12, 1953	National Association of County Agricultural Agents.	Farm problems and job of county agents.
Kansas City, Mo	Oct. 15, 1953	Future Farmers of America	Future of American youth on farms; agricultural programs; general.
Chicago, Ill	Oct. 21, 1953	54th Annual Convention, National Retail Farm Equipment Association.	Farm programs; general agricultural prospects for the future; farm power mechanization.
Hot Springs, Va	Nov. 2, 1953	Southern Governors Conference.	Drought, supply and demand picture; agricultural programs and problems; cotton quota and acreage allotment.
Columbus, Ohio	Nov. 12, 1953	Annual convention, Association of Land-Grant Colleges and Universities	Farm problems, programs, and policy; education work of land-grant colleges and universities.
Burlington, Vt	Nov. 19, 1953	Annual convention, National Grange.	Farm program recommendations for the future; cost-price problems; surplus; marketing.
Boston, Mass	Nov. 20, 1953	New England Council	Improved farm programs; surpluses, price supports, research; reorganization.
Chicago, Ill	Nov. 30, 1953	National 4-H Club Congress	Long-range agricultural programs and problems; what should be done.
Memphis, Tenn	Dec. 17, 1953	Celebrating 20th anniversary of "Plant To Prosper."	Farm programs and problems; cotton quotas and acreage allotment.
Chicago, Ill	Jan. 12, 1954	National Council of Farmer Cooperatives.	Farm policy, price supports.
Colorado Springs, Colo	Jan. 13, 1954	American National Cattlemen's Association.	Farm programs, cattle situation, price supports.
Tuskegee, Okla	Jan. 27, 1954	Farmers' conference	Farm program, small farmers' problems.
Stillwater, Okla	Feb. 9, 1954	Agricultural Day, Oklahoma A. and M. College.	Farm program as related to wheat and cotton.
Guymon, Okla	do	Meeting of farmers of 5-State High Plains area.	Price supports, surpluses, farm programs.
Omaha, Nebr	Feb. 10, 1954	Nebraska Farmers Union	Farm program, corn, price supports.
Columbus, Nebr	do	Agricultural committee, Chamber of Commerce.	Farm program, price supports, surpluses.
New York, N. Y	Feb. 24, 1954	Coordinating Committee of the Food Industry, Grange League Federation, Northeast Poultry Producers Council, National Wholesale Frozen Food Distributors Association.	Farm program, foreign markets, diets of American people.
Orlando, Fla	Mar. 20, 1954	Representatives of statewide agricultural groups.	Agricultural research and education, farm program.
Ithaca, N. Y	Mar. 24, 1954	Farm and Home Week	Agricultural problems, farm program.

Place	Date	Organization	Major content
St. Louis, Mo	June 1, 1954	Chamber of commerce	Price-support program, drought situation.
Hot Springs, Va	June 12, 1954	American Plant Food Council	Fertilizers, agricultural future, marketing and utilization research.
White Sulphur Springs, W. Va.	June 14, 1954	National Fertilizer Association.	Agricultural marketing, soil and water conservation, fertilization.
Washington, D. C	June 17, 1954	National 4-H Camp	Agriculture's history, responsibilities, and objectives.
Everett, Wash	Sept. 11, 1954	State cooperative council	Farm program, cooperatives, dairy problem.
University of Maryland, College Park, Md.	Sept. 15, 1954	Maryland poultry day	Poultry situation.
New York, N. Y	Sept. 22, 1954	Food editors luncheon	Agricultural prosperity, national diet, promotional campaigns, marketing and merchandising improvement.
Washington, D. C	Oct. 6, 1954	National Conference on Rural Education.	Rural education.
Davenport, Iowa	Oct. 11, 1954	National Catholic Rural Life Conference.	Farm program, low-income farmers.
Washington, D. C	Oct. 16, 1954	Associtaion of Land-Grant Colleges and Universities.	Farm program, USDA-land-grant college cooperation, farm outlook.
Spokane, Wash	Nov. 18, 1954	National Grange	Farm programs, general.
Fort Fairfield, Maine	Feb. 2, 1955	Chamber of commerce	Farm program, potato situation.
East Lansing, Mich	Feb. 10, 1955	100th anniversary of Michigan State College, Annual Farmers Week.	Farm program research.
Bakersfield, Calif	Mar. 22, 1955	Kern County Potato Growers Association.	Farm program, potato and cotton situation.
Lafayette, Ind	Apr. 14, 1955	National Institute of Animal Agriculture.	Farm program and policy, animal agriculture, research.
Chicago, Ill	May 26, 1955	American Can Co	Agricultural research, economy, and goals.
Calgary, Alberta, Canada	June 10, 1955	Alberta Canadian Clubs	Agricultural progress; farm policy; surplus disposal, and United States-Canada cooperation.
Regina, Saskatchewan, Canada.	June 14, 1955	Canadian Federation of Agriculture.	United States-Canada cooperation, farm policy, agricultural problems, joint dairy-surplus situation.
Cleveland, Ohio	June 28, 1955	Kiwanis International	Farm programs, research, rural-development program.
Paris, France	Sept. 7, 1955	Agricultural attachés	Agricultural policy, programs, problems, and foreign markets.
New Brunswick, N. J	Oct. 6, 1955	75th anniversary of New Jersey Agricultural Experiment Station.	Farm programs, research.
Cleveland, Ohio	Nov. 23, 1955	89th Annual Convention of the National Grange.	Farm programs, farm problems, and progress.
New Orleans, La	Jan. 10, 1956	American National Cattlemen's Association.	Soil bank, farm policy.
Los Angeles, Calif	Jan. 16, 1956	National Council of Farmer Cooperatives.	Farm programs and policy, general.
Rochester, N. Y	Jan. 17, 1956	New York Horticultural Society.	Farm programs, research.
Atlantic City, N. J	Jan. 21, 1956	National Canners Association	Farm programs, surpluses, markets, research.
Portland, Oreg	Feb. 2, 1956	National Association of Wheat Growers.	Wheat program, surpluses, research.
Denver, Colo	Mar. 5, 1956	National Farm and Ranch Congress.	Farm programs and problems, general.
Chicago, Ill	Mar. 6, 1956	National American Wholesale Grocers' Association, Inc.	Farm programs, surpluses, and marketing research.
Los Angeles, Calif	Apr. 10, 1956	American Warehousemen's Association.	Farm problems, surpluses, storage, research.
Washington, D. C	May 14, 1956	President's Conference on Occupational Safety.	Farm safety.
Riverhead, Long Island, N. Y.	May 15, 1956	Long Island Potato Growers	Farm programs, potato situation.
Beaver Dam, Wis	June 4, 1956	Farm-City Dairy Week	Dairy situation and programs, soil bank.
Washington, D. C	June 6, 1956	50th anniversary exhibition of Federal meat inspection.	Meat-inspection program.
Battle Creek, Mich	Aug. 28, 1956	Farmers' businessmen's meeting.	Farm programs and policies, general.
Chicago, Ill	Sept. 11, 1956	Grain and Feed Dealers' National Association.	Farm problems and programs, grain storage.
Lafayette, Ind	Sept. 14, 1956	Hoosier Swine Day, Purdue University.	Agricultural research.

Place	Date	Organization	Major content
Plum Island, Long Island, N. Y.	Sept. 26, 1956	Plum Island Animal Disease Research Laboratory.	Animal-disease research.
Chicago, Ill	Oct. 3, 1956	Farm Equipment Manufacturers Association.	Farm programs, general, farm equipment.
Do	Oct. 4, 1956	American Butter Institute	Dairy situation, farm programs and policy.
Garden Grove, Iowa	Nov. 11, 1956	Monument dedication	Praising farmers, farm income and other farm problems.
Washington, D. C	Nov. 19, 1956	Farm-City Week International Day luncheon.	World trade and progress.
Columbus, Ohio	Jan. 29, 1957	Annual Religion-in-Life Week.	Religion in everyday living.
St. Louis, Mo	Feb. 7, 1957	National Association of Soil Conservation Districts.	Conservation; soil, water, research; Great Plains program: soil bank.
Spokane, Wash	Feb. 11, 1957	Pacific Northwest farm forum.	Farm programs, general.
Winter Haven, Fla	Feb. 15, 1957	Florida Citrus Exposition	Farm programs and policy, general.
Fresno, Calif	Mar. 19, 1957	Central Valley Empire Association.	Farm programs and problems, farm income, conservation, marketing research.
Honolulu, T. H	Mar. 22, 1957	50th anniversary celebration of University of Hawaii.	Surpluses, agricultural research, and education.
Lafayette, Ind	May 20, 1957	International Federation of Agricultural Producers.	World agriculture; production, marketing, and cooperation.
Washington, D. C	May 21, 1957	National Cottonseed Products Association.	Cotton and cottonseed situation, programs and problems.
Wisner, Nebr	June 6, 1957	Association of Livestock Feeders.	Farm programs and policy, general.
Lander, Wyo	....do....	Wyoming Stock Growers Association.	Livestock situation; progress, problems, and programs.
Missoula, Mont	July 22, 1957	Service clubs and agricultural committee.	National forests, resources, etc.; agricultural programs, general.

Mr. Harold R. Lewis, Assistant Director, Office of Information, advised that the speeches listed above contain material other than that set forth under the major content, but that the Office felt that the information set forth under this column shows to a large extent the content of the speeches given. He also verified the fact that the Office had performed some work on these speeches other than editing, rewriting, and distribution. He stated that the Office does not maintain any centralized records on the speeches merely edited or rewritten.

B. Speeches for the Under Secretary

Mr. Webster advised that the Office had taken very little part in the preparation of speeches for the Under Secretary. He stated that the records show that from January 1, 1953, to September 1, 1957, the Office had assisted in the preparation of eight speeches for the Under Secretary. He stated that this assistance also ranged from merely furnishing a few paragraphs to preparing an entire speech which the Under Secretary may use in whole or in part in the finished text.

The following is a list furnished by the Office showing the place, date, organization addressed and the major content of the eight speeches:

Place	Date	Organization	Major content
East Wareham, Mass	Aug. 17, 1954	Cape Cod Cranberry Growers' Association, Cranberry Experiment Station.	Progress being made for a more stable future for agriculture.
St. Louis, Mo	Mar. 8, 1955	National Agricultural Chemical Association.	Progress of agriculture: Part chemical industry plays in agriculture, need for more agricultural research.
Ann Arbor, Mich	Oct. 3, 1955	Kiwanis Clubs and Farmer Guests of Ann Arbor area.	Working together toward a stronger rural America.
Springfield, Mass	Oct. 18, 1955	National Convocation on the Church in Town and Country, held under auspices of National Council of Churches of Christ in United States of America in cooperation with New England Council of Churches.	Religious education and need for more rural leaders and churches; rural development program.
Cleveland, Ohio	Feb. 24, 1956	City-Farm Conference	New opportunities for low-income farm families; rural development program.
Roanoke, Va	June 20, 1956	Joint Committee on Grassland Farming and American Society of Agricultural Engineering.	Land, water, and forest conservation; soil-bank program.
Marietta, Ohio	Aug. 3, 1956	Home Acres Clinic, Friends of the Land.	Growing opportunities for farm families: Expanding and better markets, more employment opportunities, farm income, soil bank, rural development program.
Columbia, Mo	Oct. 30, 1956	Annual banquet of Association of University of Missouri Agricultural Alumni.	Agricultural leadership and rural development.

C. Speeches for Assistant Secretaries

Mr. Webster advised that during the period from January 1, 1953, to September 1, 1957, no record could be found which shows wherein the Office had assisted in the preparation of speeches for the Assistant Secretaries except a record showing eight speeches given by Assistant Secretary Ervin L. Peterson. He stated that the Assistant Secretaries usually as a matter of practice do not request assistance in speech preparation from the Office but obtain such assistance from the agencies in the USDA under their supervision. Mr. Webster furnished a list of the eight speeches given by Mr. Peterson in which the Office had some part in the preparation thereof. This list follows and shows the place, date, organization addressed, and the major content of the speeches:

Place	Date	Organization	Major Content
White Sulphur Springs, W. Va.	June 14, 1955	American Plant Food Council.	Agricultural problems: Natural, resources market program relationship, price supports, surpluses, fertilizers, research, and eduction.
Omaha, Nebr.	July 25, 1955	American Association of Agricultural College Editors.	Keeping people agriculturally informed: Teamwork among land-grant colleges, State departments of agriculture and USDA; economic outlook.
Manawa, Wis.	Sept. 28, 1955	State Plowing Contest.	Agricultural problems and progress.
Dyersville, Iowa.	Oct. 12, 1955	State Corn Picking Contest.	Do.
Scranton, Pa.	Oct. 25, 1955	Pennsylvania State Grange.	Do.
Pendleton, Oreg.	Dec. 9, 1955	Oregon Wheat Growers League.	Wheat problems: USDA cooperation and accomplishments.
Houston, Tex.	Oct. 23, 1954	National Association of County Agricultural Agents.	Extension education for farm people on agricultural problems and policy.
Stillwater, Okla.	Oct. 24, 1956	Oklahoma Agricultural and Mechanical College.	Farm problems and programs general.

V. Distribution Channels and Cost of Speeches

A. Distribution channels

Mr. Lewis advised that speeches of the Secretary, Under Secretary, and Assistant Secretaries of USDA which are to be distributed are mimeographed by the Office. The distribution of speeches is based largely upon the subject matter content of the speeches. He stated that certain general outlets in the press, radio, and television news fields have requested copies of such material, as well as other outlets which have specific interest in matters pertaining to the USDA. He pointed out that although the number of copies of speeches which are prepared depends largely on their content, sometimes this volume is increased through specific requests for copies of such speeches.

Mr. Lewis stated that the major distribution of speeches falls into the following categories: (1) Washington news outlets, (2) trade and agricultural publications, (3) food publications, (4) farm magazines and newspaper farm editors, (5) radio and TV farm directors, (6) list of individuals who desire to receive policy statements, (7) advisory committees and miscellaneous.

All except 19 of the 186 speeches given by the Secretary from January 1, 1953, to September 1, 1957, received distribution. The number of copies prepared for distribution ranged from 400 to 6,700 copies per speech.

B. Distribution costs

Ten speeches which were given by the Secretary between January 1, 1953, and September 1, 1957, were selected at random by this staff for the purpose of determining the extent and cost of their distribution. This information is shown in the following schedule.

KEY TO DISTRIBUTION

A—Washington news outlets.
B—Trade and agricultural publications.
C—Food publications.
D—Farm magazines and newspaper farm editors.
E—Radio and TV farm directors.
F—List of individuals to receive policy statements.
G—Advisory committees and miscellaneous.

Place	Date	Organization	Number of copies	Distribution	Distribution costs
New York, N. Y	Feb. 24, 1954	Food Industries, Grange League Federation, Northeastern Poultry Producers Council, and Natural Wholesale Frozen Food District Association.	3,100	A, B, C, D, E, F, G	$197.43
Chicago, Ill	Dec. 1, 1954	American Agricultural Editors Association	3,100	A, B, C, D, E, F, G	268.39
Fort Fairfield, Maine	Feb. 2, 1955	Chamber of Commerce	2,500	A, B, C, D, E, F, G	301.29
Chicago, Ill	May 26, 1955	Barrington Laboratory, American Can Co	2,850	A, B, C, D, E, F, G	283.57
Atlantic City, N. J	Jan. 21, 1956	National Canners Association	3,050	A, B, C, D, E, F, G	284.52
Denver, Colo	Mar. 5, 1956	National Farm and Ranch Congress	4,150	A, B, C, D, E, F, G	374.49
Eldora, Iowa	June 22, 1956	Corn Belt Farm Family Field Days	5,750	A, B, C, D, F, G	190.78
New Orleans, La	Apr. 26, 1957	American Cotton Shippers' Association	2,050	A, B, D, F, G	175.75
New York, N. Y	Apr. 29, 1957	Economic Club of New York	2,650	A, B, D, F, G	184.46
Chicago, Ill	May 6, 1957	Iowa State Club	3,350	A, B, D, E, F, G	205.13
Total					2,465.81

From the above table it is noted that the average cost of distribution was $246.58 per speech. As previously stated, from January 1, 1953, to September 1, 1957, the Secretary has given 186 speeches and 167 of these were distributed by the office. At an average cost of $246.58 per speech this would represent a total cost of $41,178.86, or a cost of $8,235.77 per year for the 5-year period.

Mr. Webster advised the cost information set forth above includes all steps in the processing and distribution of the speeches, including envelopes, but with the exception of postage. He stated in the interest of economy speeches were not mailed separately except on occasions. They are distributed generally to people on other mailing lists and the practice is to make one mailing a day wherever that is feasible. Thus, a person on a particular mailing list may receive a copy of a speech and a press release or other material in the same envelope, hence it is impossible to develop mailing costs of speeches alone. A single copy of a speech mailed separately is sent second class and costs 2 cents. The figures given represent actual costs based on the records of the office with one exception. Mr. Webster stated that the cost of distribution of the Fort Fairfield, Me., speech is not available and the figure given is an estimate.

COMMENTS OF DEPARTMENT OF AGRICULTURE ON REPORT TO HOUSE COMMITTEE ON APPROPRIATIONS REGARDING OFFICE OF INFORMATION, UNITED STATES DEPARTMENT OF AGRICULTURE

This department concurs in general with the facts set forth in the report to the committee. The report reflects accurately the limited activity of the Office of Information on speeches for the Secretary, Under Secretary, and Assistant Secretaries. The cost and distribution items shown reflect the best information available on these matters.

The Department questions the phrase "*upon its own initiative*" in line 5, under paragraph II "Scope of Inquiry," page 1. This might be taken to mean the Office of Information initiates speeches when, as a matter of fact, it does not do so. The report later states this matter correctly. We believe the sentence might more accurately read "*a determination was made of the number of these speeches in which assistance was rendered upon specific request from such officials and also the number of speeches which were prepared wholly outside the office.*

The report on page 16, paragraph 3, states that all except 19 of the 186 speeches referred to were distributed. We believe that these 19 were in fact distributed but we do not have records on them.

INQUIRY INTO THE ADMINISTRATION OF MILK-MARKETING AGREEMENTS, UNITED STATES DEPARTMENT OF AGRICULTURE

A REPORT TO THE COMMITTEE ON APPROPRIATIONS, UNITED STATES HOUSE OF REPRESENTATIVES, BY SURVEYS AND INVESTIGATIONS STAFF, DECEMBER 1957

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I. DIRECTIVE

II. SCOPE OF INQUIRY

III. BASIC LEGISLATION

A. DECLARATION OF POLICY

Agricultural Marketing Agreement Act of 1937 declares policy is to establish orderly marketing conditions.

B. TERMS OF THE BASIC LAW

Act authorizes Secretary of Agriculture (Secretary) to enter into voluntary agreements or issue milk-marketing orders. At present all regulation is by order. Act requires that hearings must be held and lists items to be included in order. Order must be approved by at least two-thirds of producers and may be terminated by action of Secretary or if opposed by majority of producers. Handlers required to submit reports and to pay for administration of order.

IV. REGULATIONS ISSUED BY SECRETARY OF AGRICULTURE CONCERNING HEARING PROCEDURES AND ISSUANCE OF ORDERS

Regulations issued by the Secretary govern the proposal of marketing orders, the notice of hearings, the method of conducting hearings, and the issuance of the orders.

V. STATISTICAL DATA CONCERNING MARKETING AREAS

At June 30, 1957, there were 67 milk-marketing orders in effect. These orders affected payments to more than 180,000 producers who shipped almost 32 billion pounds of milk valued at $1.345 billion during the 12 months ended June 30, 1957.

VI. MILK-MARKETING ORDERS

The purpose of milk-marketing orders is to assure that an ample supply of wholesome milk is available to consumers at all times. The orders do not control production, restrict marketing, guarantee price or marketing.

A. PROVISIONS OF MILK-MARKETING ORDERS

Some of the provisions of orders are described.

1. *Marketing area.*—The orders clearly define and limit the area covered and usually include all of an area where the same milk dealers compete for the sales of milk.

2. *Handlers regulated by order.*—The orders define the handlers who are subject to regulation. Usually the handler is the individual, cooperative, or corporation who brings milk into the area for sale in fluid products.

3. *Classified pricing.*—Handlers' payments for milk vary in accordance with use of milk. Class I milk, generally fluid milk, will bring a higher price than class II milk which is usually the excess milk used for manufacturing purposes such as ice cream, cheese, etc. The orders give the formulas for computing the prices. Usually class II milk is priced at the equivalent of milk sold to unregulated manufacturing plants. The class I price is designed to take into account supply, demand, price of feed, etc.

4. *Payments to producers.*—Since milk is commingled and it is difficult to determine how an individual producer's milk is used, payment is usually made through pools, either individual or marketwide. This will assure all producers

paid through the same pool the same blend price. The administrator computes the blend price for all pools on the basis of utilization reports submitted by the handlers. Where a marketwide pool is in operation, the administrator operates a settlement fund to insure equal blend prices to all producers despite the fluid-milk-utilization ratio of the individual handler.

5. *Base-excess plan.*—This is a device to level off the production of milk and eliminate the seasonal highs and shortages. Under this plan, the producer will receive a higher price for his base milk—usually the amount of milk produced in the season of short supply—than for his excess milk. The administrator establishes the base for each producer and computes the base and excess prices for the area. The excess-milk price is usually the equivalent of the manufactured-milk price.

6. *Marketing services.*—This includes verification of weights, sampling and testing of milk, and furnishing marketing information. The services are performed by the administrator for independent producers who pay for the services received by checkoff against payments due them from handlers. Qualified cooperatives perform these services for their members.

7. *Audit functions of administrator.*—Handlers are required to submit reports which show the volume of milk received, processed, and sold. These are verified by the auditors employed by the administrator. The audit includes check of physical units and financial transactions.

VII. REFERENDUMS

Secretary may conduct a referendum to determine whether order is favored by producers. Dairy Division advises referendums are always held where new orders are issued, areas are extended, or where there is indication of objection from any group of producers.

A. Procedures for holding referendum

When referendums are held, each producer in the area during a designated period is entitled to one vote. However, a cooperative may vote for its members. The procedures issued by the Secretary provide for designation of a referendum agent who will conduct the referendum. The agent is required to determine what producers are eligible to vote and, in the case of a cooperative, which producers the cooperative may vote for. There are two types of referendum, mail and polling place. In each case the agent is required to publicize the referendum fully and in a mail referendum to send ballots to all eligible producers and cooperatives. The agent must personally supervise the counting of votes and submit a tabulation to the Secretary which shows details of the vote.

B. Comments on method of holding referendums

Complaints most frequently heard were about referendums. Specific complaints concerned:

1. *Block voting by cooperatives.*—Cooperatives generally represent will of majority of members, but even if individual member disagrees, his vote is cast by cooperative. Thus, even if individual member voted, his vote would not be recorded. Member of cooperative may resign only at or near anniversary date of his contract. Independents feel it is a waste of time to vote because of large block vote by cooperative. In recent referendum in New York, 98 percent of cooperative vote recorded against only 12 percent of independent vote.

2. *Necessity for holding referendums.*—Some persons felt referendums not necessary because of expense and time involved. Sometimes matter so complex, producer does not know what he is voting for. Also approval of producers may be assumed in that orders are generally proposed by cooperatives whose membership may represent more than the necessary two-thirds of the producers.

3. *Failure to publicize referendums properly.*—In one case complaint was made that referendum agent failed to publicize mail referendum by press, radio, county agents, etc., as required by procedures. Agent admitted failure to follow procedures, but he claimed he had satisfied himself by other means that all eligible producers had been informed of referendum.

4. *Eligibility of producers to vote on extension of market area.*—When marketing area is extended, all producers in combined area may vote. Thus, if large area is to be extended to take in small adjoining area, the will of the larger group in original area may be imposed on smaller group who will be brought into area.

5. *Acceptance or rejection of orders in entirety.*—Producers must accept or reject orders in entirety. Orders are long and may contain many objectionable

features, but producers must accept them if they are to have any regulation. Department feels that "all or nothing" vote assure public and interested persons that order is in public interest.

6. *Issuance of order prior to final date of vote.*—Complaint was received that order was issued before final vote date. Referendum agent stated he tabulated votes as received and 3 days before final vote date he had received favorable votes of more than two-thirds of the eligible producers. On this advice, Secretary issued order day before final vote date.

VIII. ROLE OF COOPERATIVES IN MILK MARKETING AREAS

A. Influence of cooperatives in promulgation of orders

Cooperatives have had considerable influence in sponsoring milk marketing orders. They claim orders are rarely approved unless sponsored by cooperatives. Secretary has stated producers can participate in milk marketing only through cooperatives. This was confirmed by staff. Matter quite complex and cooperatives can afford to hire experts to foster the interests of their membership.

B. Attitude of cooperatives toward marketing orders

Membership in cooperative is usually indicated by contract under which cooperative has exclusive right to market the producer's milk at the best price. Cooperative may receive checkoff from handler to cover services or receive entire payment and then pay individual producers. Cooperatives interviewed endorsed marketing orders but membership in cooperatives has not been increased because of orders.

C. Attitude of Department of Agriculture re role of cooperatives

Secretary feels it is not feasible for producers to participate in the regulation of markets except through cooperatives and that cooperatives in New York perform services which benefit all producers. Feels all producers should pay for support of cooperatives which perform marketwide services such as analysis of milk marketing problems, preparation of statistical data, participation in hearings and meetings, etc.

D. Action of United States courts on marketwide deductions

Marketwide deductions for cooperatives are made only in New York area. Courts declared comparable deductions in Boston illegal and Secretary suspended similar provision in Cincinnati order. However, courts have declined to overrule Secretary's finding that deduction is proper in New York. In September 1957, cooperatives in New York received $142,000, or more than $2.50 per eligible producer. Since membership in a cooperative is not mandatory, nonmember producers should not be required to make payments to cooperatives.

IX. QUALIFICATIONS OF COOPERATIVES IN THE ST. LOUIS MILK MARKETING AREA

A. Capper-Volstead Act for qualification of cooperatives

Act passed in 1922 gave agricultural producers right to associate for mutual benefit. Act requires that each member be limited to 1 vote or that dividends be limited to 8 percent a year.

B. Request for qualification of Prairie Farms Creamery

In April 1956, Prairie Farms requested qualification as cooperative in St. Louis market but was turned down by Dairy Division as a nonpool plant. Prairie Farms asked for reconsideration and stated it had sales in St. Louis market and three producers had signed membership agreement.

C. Prairie Farms class B stock held by Illinois Agricultural Association

In January 1957, Dairy Division raised question of large amount of class B stock held by Illinois Agricultural Association and, therefore, control of Prairie Farms not held by dairy producers. Interchange of letters between Prairie Farms and Division indicates this the major problem.

D. Proposed amendment to marketing order defining qualified cooperative

While Prairie Farms' request for qualification was pending, a proposal for defining a qualified cooperative in the St. Louis area was introduced by another creamery and supported by largest cooperative. This definition would require

"1 member—1 vote" rule as basis for qualification, thus preventing qualification of Prairie Farms because of the stock control by Illinois Agricultural Association. Prairie Farms sponsored a proposal approximating the language of the Agricultural Marketing Agreement Act of 1937, under which they could have been qualified. A recommended decision issued on September 12, 1957, included a definition of a qualified cooperative under which Prairie Farms could qualify. Interested parties may file exceptions to this recommendation up to November 21, 1957.

E. Decision by Department on qualification of Prairie Farms

On July 10, 1957, the Dairy Division prepared a memorandum recommending that Prairie Farms' request for qualification be denied because of inability of member patrons to control the association. This draft was not approved by the Department's Office of General Counsel and was not issued. On September 3, 1957, a revised memorandum recommended that Prairie Farms be qualified. On September 12, 1957, a determination was issued under which Prairie Farms was qualified as a cooperative effective September 1, 1957.

F. Comments by interested persons on qualifications of Prairie Farms

Sanitary Milk Producers Association believes qualification of Prairie Farms is a danger to whole cooperative movement. Sanitary feels that, under this ruling, Illinois Agricultural Association and the Farm Bureau can control all cooperatives. Prairie Farms believes it can serve its members better now and conditions will improve. Illinois Agricultural Association believes matter is settled and all cooperatives can coexist in St. Louis area.

I. Directive

By directive dated July 5, 1957, the committee instructed this staff to conduct an inquiry into the administration of milk marketing agreements by the United States Department of Agriculture (USDA) with particular attention to procedures followed in extending marketing areas, conducting referendums, and notifying eligible voters.

II. Scope of Inquiry

This staff conducted interviews with responsible personnel of the USDA, Washington, D. C., and made field trips to the following milk marketing areas:

Area	*Location*
Central Mississippi	Jackson, Miss.
Puget Sound	Seattle, Wash.
Inland Empire	Spokane, Wash.
New York-New Jersey	New York, N. Y.
Boston	Boston, Mass.
St. Louis	St. Louis, Mo.

Staff inquiry was made into specific complaints concerning the functions of one milk marketing area and a complaint relative to the qualification of a cooperative in the St. Louis milk marketing area. This staff examined applicable laws and regulations and selected marketing orders, hearing transcripts, and other records of the Dairy Division in Washington, D. C., and the milk marketing areas. During the field trips, personnel of the marketing administrators' offices, milk producers (dairy farmers), milk handlers (milk processors), and officials of organizations of milk producers and handlers were interviewed.

III. Basic Legislation

A. Declaration of policy

The milk marketing orders were issued and milk marketing areas were established in accordance with the Agricultural Marketing

Agreement Act of 1937 (7 U. S. C. 601). This act declares that it is the policy of the Congress "* * * to establish and maintain such orderly marketing conditions for any agricultural commodity * * * as will provide, in the interests of producers and consumers, an orderly flow of the supply thereof to market throughout its normal marketing season to avoid unreasonable fluctuations in supplies and prices * * *." This policy was to be exercised through authority conferred upon the Secretary of Agriculture. Milk was among the commodities covered by the act.

B. Terms of the basic law

The act authorizes the Secretary of Agriculture (Secretary) to enter into marketing agreements or to issue orders regulating the handling of agricultural commodities in interstate or foreign commerce or which affect such commerce. However, in practice the milk handlers generally decline to sign voluntary milk marketing agreements, and at the present time all regulation of milk markets is by order. Accordingly, this report is directed to milk marketing orders which are mandatory on the handlers, rather than on milk marketing agreements.

Before an order is issued, the Secretary is required to give notice of hearing and to hold hearings upon the proposed order. Orders issued under the act usually provide for the classification of milk and for establishing uniform prices payable by all handlers for each class of milk. Similarly, the order may provide for issuance of marketing information to producers and for the verification of weights, sampling, and testing of milk purchased from producers.

The act provides that an order may not be effective unless it is approved by at least two-thirds of the producers within the area specified in the order. In the case of an order providing for the payment of uniform prices to all producers delivering milk to the same handler, the order must be approved by at least three-fourths of the eligible producers. The act states that—

> For the purpose of ascertaining whether the issuance of an order is approved or favored by producers, * * * the Secretary may conduct a referendum among producers.

In determining whether the order has been approved, the Secretary is required to consider the approval or disapproval by any bona fide cooperative association—

> * * * as the approval or disapproval of the producers who are members of, stockholders in, or under contract with, such cooperative association of producers.

The law also provides that the Secretary may require handlers subject to the marketing order to submit reports to the Secretary that will enable him to determine the extent to which the order has been carried out. To ascertain the validity of these reports, the Secretary is—

> * * * authorized to examine such books, papers, records, copies of income-tax reports, accounts, correspondence, contracts, documents, or memoranda as he deems relevant * * *.

In addition, the act requires that each order issued shall provide that all handlers and cooperatives engaged in the distributing, processing, or shipping of milk shall pay the expenses of the maintenance

and functioning of the authority established to administer the order.

The act further provides that the Secretary shall terminate or suspend the order whenever he finds that the order obstructs or does not tend to effectuate the declared policy of the act. Similarly, the Secretary is required to terminate the order whenever he finds that such termination is favored by a majority of the producers who produce more than 50 percent of the volume of milk in the specified area market.

IV. Regulations Issued by Secretary of Agriculture Concerning Hearing Procedures and Issuance of Orders

The law authorizes the Secretary, with the approval of the President, to make such regulations as may be necessary to carry out the powers vested in the Secretary. These regulations would have the force and effect of law.

According to the regulations issued by the Secretary, marketing orders may be proposed by the Secretary or any other person. In practice, however, milk marketing orders are generally proposed by associations of milk producers. An investigation is made by the Dairy Division, USDA, and, if it is concluded that the proposed order will tend to effectuate the declared policy of the act, the Secretary will sign a notice of hearing which is filed with the hearing clerk. This notice shall include the authority for the proposed order, shall define the scope of the hearing, contain the substance of the proposed order or a description of the subjects and issues involved, shall state the industry, area, and class of persons to be regulated, and the time and place of the hearing. The notice of hearing must be published in the Federal Register at least 15 days before the date of the hearing (at least 3 days in the case of amendments to marketing orders).

In addition to publication in the Federal Register, the hearing clerk may give notice of the hearing by mailing copies of the notice of hearing to interested persons and to the governors of the States involved, and by issuing press releases containing the contents of the hearing notice to such newspapers as will tend to bring the notice to the attention of interested persons. However, legal notice of the hearing is considered to have been given by publication in the Federal Register.

The hearing is conducted by an examiner from the Office of Hearing Examiners of the USDA who may administer oaths, take affidavits, rule upon motions or requests, admit or exclude evidence, hear oral arguments on fact or law, and do all acts necessary for the maintenance of order and the efficient conduct of the proceeding. After the hearing, the examiner will submit a certified copy of the hearing transcript and exhibits to the hearing clerk of the USDA.

Briefs may be filed by interested parties within a limited time after close of the hearings. As soon as possible following the period for the filing of written arguments or briefs and proposed findings and conclusions, the Deputy Administrator of the Agricultural Marketing Service of the USDA is required to file a recommended decision with the hearing clerk. The recommended decision includes: (1) A preliminary statement containing a description of the history of the proceedings, a brief explanation of the material issues of fact, law, or

discretion presented on the record, and proposed findings and conclusions with respect to such issues, as well as the reasons or basis therefor; (2) a ruling upon each proposed finding or conclusion submitted by interested persons; and (3) an appropriate proposed marketing agreement or marketing order effectuating the recommendations of the Deputy Administrator.

Interested persons are given a period of time (not to exceed 20 days) in which to file exceptions to the proposed order. Following this period, the record of the proceedings is submitted to the Secretary. This record includes the certified transcript, motions, and requests filed with the hearing clerk and rulings thereon, any proposed findings or conclusions or written arguments or briefs, the recommended decision, and any exceptions that may have been filed.

After consideration of the record, the Secretary will render his decision. The decision will include (1) a statement of his findings and conclusions as well as the reasons therefor on all material issues of law, fact, or discretion presented on the record, (2) a ruling upon each proposed finding and conclusion not previously ruled upon, (3) a ruling upon each exception filed, and (4) either a denial of the proposal to issue a marketing agreement or order, or a—

marketing agreement and, if the findings upon the record so warrant, a marketing order, the provisions of which shall be set forth directly or by reference, regulating the handling of the commodity * * *.

This order shall be complete except for its effective date.

V. Statistical Data Concerning Marketing Areas

Marketing orders were first authorized by the Agricultural Adjustment Act of 1935. The number of orders issued increased each year and at June 30, 1957, there were 67 milk marketing orders in effect. These orders affected payments to 180,780 producers of milk who shipped almost 32 billion pounds of milk during the 12-month period ended June 30, 1957. The value of this milk to producers at 3.5 percent butterfat content exceeded $1,354 million.

The law provides that the handlers subject to an order shall pay the expenses of administering the order. This is usually collected by means of a fixed charge per hundredweight for all milk processed by the handler. In 1956 the administrative expenses for the marketing administrators were more than $5,406,000, all of which was paid by the handlers.

In addition, during 1956 there were 59 market administrators who furnished marketing services to producers. Generally these services are furnished to independent producers and are similar to those furnished members of cooperatives by their own organizations. Usually these services include check testing of weight and butterfat content of milk shipped to market. In addition, the Administrator usually issues a monthly bulletin which goes to independent producers. A charge is made to the producers who receive this service by checkoff against payments made by handlers. During 1956, expenses incurred for this type of service totaled $1,276,600.

VI. Milk Marketing Orders

According to the USDA, the purpose of the milk marketing order is to assure that an ample supply of wholesome milk is available to

consumers at all times. This is done by promoting and maintaining orderly marketing of milk by producers.

The orders do not guarantee a given price level, nor do they guarantee the producers a market. Federal orders do not control production, nor do they restrict marketing. The orders do not establish sanitary or quality standards which are prescribed and administered by local and State health authorities.

The program tries to achieve orderly marketing through the terms of the marketing order. These terms, which are developed at public hearings in which producers, handlers, and consumers have a chance to be heard, are made available in advance of the issuance of the order and are known to both buyers and sellers.

Because of the different conditions existing in the various parts of the country, the law requires that no order shall be issued that is applicable to all marketing areas unless the Secretary finds that the issuance of several orders applicable to the respective regional areas would not effectively carry out the declared policy of the law. Apparently, insofar as possible, the law tried to limit the area included in an order so that the terms of the order could give recognition to these differences in production and marketing conditions.

A. Provisions of milk marketing orders

Despite the different conditions in the various areas, the items covered by the orders are generally the same. However, the areas, product classification, method of computing prices, type of handler pool, etc., differ in each order. Listed below are some of the items usually found in each order:

1. *Marketing area.*—Each order clearly defines and limits the area to be affected by the order. The definition of this area is always a matter of considerable interest to the handlers and producers involved. The transcripts of the hearings for promulgation of marketing orders or extension of existing areas bear full testimony to the emphasis placed on this matter.

For instance, the transcript on the establishment of the Inland Empire marketing area discloses that at various times all or part of 18 counties were proposed for inclusion in the area. However, the order issued in February 1956 included only Spokane County and parts of four other counties. In hearings held in May 1957, on extension of the area, many of the counties included in the original proposals were again proposed for inclusion in the extended area. The recommended decision proposed extension of the area only to two additional counties.

The marketing area is designed to include all of an area where the same milk dealers compete with each other in the sale of milk. Since only handlers doing business within the defined area must pay the minimum prices, it is important to draw the boundary line at points where there are relatively few route sales moving across the boundary.

2. *Handlers regulated by order.*—The order defines the handler who is subject to regulation by the order. Usually he is the person who buys milk from the producer for delivery at a city plant or who purchases milk at a country receiving plant and transfers it to the city for sale. The handler may be an individual, corporation, or cooperative association.

In some cases producer-handlers (that is, producers who market only their own milk) are exempt from the pool features of the order. (Central Mississippi and Inland Empire allow such exemptions.) In other areas, the orders do not distinguish between producer-handlers and other handlers. In such an area, a producer-handler would have to settle with the producer settlement pool for his own production.

3. *Classified pricing.*—Handlers pay for the milk at prices that vary in accordance with the end use of the product. Most of the orders establish two use classifications, class I, the primary fluid use, and class II, all other products. Class I milk will usually include such products as whole milk, flavored drinks, buttermilk, and other fluid milk products which must be producted from milk approved by local health authorities. In most markets, fluid milk will also include sweet and sour cream sold for consumption as cream. Class II milk will include milk used for ice cream, cheese, powdered milk, etc. In some markets there are variations of this product classification.

The handler pays minimum prices that will vary with the use of the milk. These prices are established by the order. Generally, class II milk (or any other class of milk used for manufactured products) will be priced at the equivalent of milk sold to unregulated manufacturing plants.

According to information issued by the USDA, the primary standard for establishing class I prices is the concept of equating the supply with the demand for milk in the marketing areas. The price of feeds, the available supplies of feeds, and other economic conditions referred to in the act are taken into account as they affect prospective supply and demand conditions.

The class I formulas in curent use are of two general types. In one type, economic formulas—

> * * * relate fluid milk prices to selected economic factors. For example, in the New England markets, these factors relate the milk price to certain costs of production, to changes in per capita disposable income in New England, and changes in the general level of wholesale prices of about 2,000 commodities.

In the New York-New Jersey area, the price is based on an elaborate formula that includes the monthly wholesale price index for all commodities as reported by the United States Department of Labor, a utilization average, a base price, a utilization adjustment percentage, seasonal adjustment factors, etc. This order further provides for a hearing when there is too great a variance in prices for any 3 consecutive months.

In most other markets, so-called "manufacturing milk formulas" are used. In this formula the price of class I milk is related to market prices of manufactured dairy products or the value of milk for manufacturing purposes. Specified differentials are added to manufacturing values to account for the additional cost of producing milk inspected for fluid use and other special economic conditions which influence prices for milk in city markets. For instance, the class I price in the Inland Empire area is based on a formula that takes into consideration the price paid for milk at various manufacturing plants or the price of butter plus various differentials.

Although most market orders use the above classifications, some areas use different classifications for different purposes. The New

York-New Jersey area uses the class II classification for milk disposed of as cream products. In this market class III is the lowest classification used. Other markets use other variations of the basic classes.

4. *Payments to producers.*—The handlers pay for the milk in accordance with the minimum rates set forth in the order. However, payments are not made to the producers at these rates. Instead, the payments are made through "pools" whereby all the producers serving a given plant or area will receive comparable prices for comparable milk. The theory behind the pooling arrangement is the fact that generally milk received at a plant is commingled and it is very difficult to ascertain exactly how an individual producer's milk is used. Use of the pool assures all producers an equitable price for their milk based on the end use of the product.

The orders generally provide for two types of pools; the individual-handler pool and the marketwide pool. Under the individual-handler pool, the total of payments to be made by a handler (at the minimum prices established in the order) is divided by the total volume of milk received from the producers to arrive at a uniform or blend price per hundredweight. This is the basic price to be paid all producers and may be adjusted for butterfat content or location differential.

This type of pool will operate well in a market where the supply of milk is relatively short or where the reserve is distributed evenly among the producers. Under this pool, the handler with a higher proportion of class I sales would be paying a higher blend and would thus attract producers from handlers with a lower class I utilization rate.

Of the 67 milk marketing orders in effect at June 30, 1957, there were 16 markets on an individual-handler pool basis. The largest of these was the Philadelphia area with 7,281 producers who delivered milk to 38 handlers. Orders providing for an individual-handler pool must be approved by at least three-quarters of the producers voting in the referendum.

Under the marketwide pool, all payments by handlers are pooled and a uniform price is determined for all milk received by the regulated handlers. This type of pool is best suited for markets where reserve supplies are not distributed evenly. A marketwide pool will tend to reduce the competition for producers since all producers shipping into the market will be receiving the same blend price.

In the marketwide pool, each handler will compute the amount he is required to pay, based on the prices established in the order and the end use of the product. However, instead of computing a blend price for each handler, all payments for handlers are totaled and this amount is divided by the total volume of milk received from the producers. This is the uniform or blend price that will be used as a basis of the payment to all producers.

In view of the variances in class I utilization among the handlers, the amount to be paid the producers at the blend price may vary from the amounts to be paid by handlers at the order prices. Therefore, wherever a marketwide pool is in effect, the administrator is required to operate a "producer settlement fund." This fund will result in an equalization of cost among all handlers and a uniform price to producers.

The operation of the producer settlement fund is best illustrated by a specific example.

	Hundredweight	Order price	Total
(a) Computation of uniform price based on utilization of all milk by all producers:			
Class:			
I	1,000	$5	$5,000
II	500	2	1,000
Uniform price	1,500	4	6,000
(b) Computation of payment and settlement for handler A:			
Total utilization, class I	200	5	1,000
Payment to producers, uniform price	200	4	800
Payment to settlement fund			200
(c) Computation of payment and settlement for handler B:			
Total utilization:			
Class I	150	5	750
Class II	125	2	250
Payment by use	275		1,000
Payment to producers	275	4	1,100
Received from settlement fund			100

Handlers will make payments into the producer settlement fund when their total payments at the order price exceed the value of the milk at the blend price. When the value of the milk at the blend price exceeds the payments that would be made at the prices stated in the order, the handler will receive from the settlement fund the amount required to enable him to make payments at the blend price. Theoretically, the payments into the producer-settlement fund will equal the payments made from it.

5. *Base-excess plan.*—Inasmuch as a greater supply of milk is produced in the spring and early summer than during the remainder of the year, various plans of seasonal pricing have been used to encourage a more even monthly production of milk. The plan most frequently used is the "base-excess" plan for determining the amount that producers will receive for their milk. Of the 67 orders in effect at June 30, 1957, there were 35 which provided for a base-excess plan of payment.

Generally, the base-excess plan provides for the establishment of a "base" which is the average daily production during a specified period in the season of short supply. The orders state in detail the precise period and method to be used in setting up the base, and in most instances the milk marketing administrator establishes a separate base for each producer, based on the producer's own shipments of milk. The orders usually require that the administrator advise each producer of his base and provide for alternative bases if the producer is not satisfied with the base developed from his own production. The alternative is usually a stated percentage of total production that will vary each month, with higher percentages in the short supply season and lower percentages of production in the flush season. Usually a new base is computed for each producer each year. The producer may transfer his base if he sells, leases, or transfers his herd. In such an event, he must give written notice to the marketing administrator. Also, if the producer discontinues shipment of milk for a specified period of time, he may lose his base.

The orders provide that the base quantity will be paid for at one rate, and the quantities in excess of the base (known as the "excess")

will be paid for at a lower rate, generally the equivalent of the class II rate. In all cases, the total of payments by the handlers at the classified rates will equal the total payments to producers under the base-excess plan.

The base price under one of the orders which provides for a base-excess plan, was computed in the following manner:

	Pounds	Rate per hundredweight	Amount
Class I	44,467,592	$4.9578	$2,204,636
Class II	37,431,030	[1] 3.5128	1,314,908
Total	81,898,622		3,519,544
Add net adjustments			93,726
Total pool	81,898,622		3,613,270
Price for excess milk	14,071,143	3.355	472,087
Less reserve for producers-settlement fund			704
Net payment, excess milk	14,071,143		471,383
Price for base milk	67,827,479		3,141,183
Less reserve for producers-settlement fund			27,902
Net payment for base milk	67,827,479		3,113,281
Base milk	67,827,479		3,113,281
Excess milk	14,071,143		471,383
Reserve for producers-settlement fund			28,606
Total	81,898,622		3,613,270

[1] Rate shown is at actual test—class II price for 4-percent test butterfat milk is $3.355 per hundredweight.

The rate for the base milk will be $4.59 per hundredweight, compared with a class I rate of $5.145.

In the computation, the value of the excess milk was determined by multiplying the volume of excess milk by the rate for class II milk as established by the administrator. The base rate was computed by dividing the total pool, less payments for excess milk, by the volume of base milk.

One handler commented to this staff that the base-excess plan was not satisfactory because it permitted the producers to increase their bases from year to year. This created a greater surplus of milk because consumer demand did not increase as rapidly as did production. Increase of the base without a corresponding increase in class I utilization will result in a lower base price. This sentiment was also voiced by a market administrator who stated he had advised producers that in striving for greater production they were causing an increase in surplus milk, which would result in lower prices. However, since producers receive a higher price for base milk, it is difficult to discourage the producer from trying to increase the base.

6. *Marketing services.*—Payments to producers are based on the weight of milk shipped to market multiplied by the uniform price and will vary according to the distance from the market and the butterfat content. The uniform prices are computed by the milk-marketing administrator and the distances from the market are known. However, the weight and butterfat content are determined by the handler. Without independent verification, the producers cannot be certain that the weight and butterfat content are being accurately reported.

In many areas the producer cooperatives perform such tests. However, the independent producers have no means of determining the accuracy of the weight and test. Staff members were advised by some producer organizations that in some instances producer dissatisfaction with the weight and butterfat test reported by the handlers was a contributory reason for requesting a marketing order.

Accordingly, many of the milk-marketing orders provide that the administrator shall perform certain marketing services for producers who are not members of cooperatives. Such services include the verification of weights, the sampling and testing of milk received from producers, and the furnishing of market information to producers. For these services the orders provide that handlers shall make a stated deduction from amounts to be paid independent producers. Such deductions, which generally do not exceed 6 cents a hundredweight, are turned over to the administrator for these services. Of the 67 marketing orders in effect at June 30, 1957, there were 57 orders which required the marketing administrator to furnish marketing services to producers who are not members of cooperatives. The orders also permit members of cooperative associations to authorize handlers to withhold from the amounts due the producers specified amounts for services furnished by the cooperatives.

In the interviews conducted in the marketing areas, this staff found that generally handlers and independent producers approved the marketing services furnished by the administrator. The handlers felt that this independent check removed a possible source of friction in the relationship between the producer and the handler. The independent producers felt that the tests helped keep their relationship with the handlers on a good business level.

The question was raised by this staff as to how the interests of independent producers were protected in areas where orders did not provide for performance of marketing services by the administrator. Information was received that in one market, the New York-New Jersey area, the State governments checked the accuracy of the weight and the butterfat content. In other areas, the staff was advised that, despite the absence of the provision in the order, some tests were performed by the administrator in his administration of the order. It was also ascertained that, in general, a provision for test verification of weight and butterfat content is not included in the order unless the producers specifically request it.

As part of their marketing services, the administrators usually issue a monthly bulletin setting forth the various class prices and other information of interest to the producers. These bulletins are furnished the independent producers, the cooperatives, the handlers, and other interested persons. Usually members of cooperative associations do not receive the marketing administrator's bulletin, but they do receive a publication of the cooperative which may include information similar to that included in the administrator's bulletin.

This staff interviewed an independent producer in the Puget Sound area who was extremely critical of the marketing order. He felt that the order had done very little for the producer. It was his belief that, under the order, the number of producers had gone down, the total production had gone up, and the prices of milk had decreased. However, he had no criticism of the administrator's bulletin which

he, as an independent producer, received monthly. The bulletin presented true statistical data, he felt, and should be distributed to all producers in the market. It was his opinion that, if all producers received and read the bulletins issued by the administrator, they would soon realize how ineffective the marketing order was and would vote it out of existence.

7. *Audit functions of administrator.*—A large part of the activity of the market administrator pertains to the verification of payments required to be made by the handlers. In order to establish the validity of these payments, the administrator prescribes forms on which the handlers report the volume of milk received, processed, and sold, and employs a staff of auditors who verify the accuracy of these reports.

The program for verification includes a check of physical units and financial transactions. The auditor will check the payments made to producers and to other handlers. He will test the record of sales to support the claimed disposition. The publication entitled "Federal Milk Marketing Orders," published by the USDA in October 1956, includes the following statement among the duties of the milk marketing auditor:

> In addition to an investigation of the specific accounts which deal with purchases and sales that have a direct relation to milk marketing operations, the complete audit includes an examination of other financial accounts to determine whether any account not labeled milk may have actually been used to record milk purchases or sales.

In the verification of the physical units, the receipts are balanced with the recorded disposition. The extent and type of audit is adapted to the market and the handler in accordance with the terms of the orders and the records usually kept.

A large part of the market administrator's staff in each area is engaged in this audit activity. In the New York-New Jersey market, the largest area, of approximately 150 employees, more than 110 are involved in the auditing and accounting functions. But even in the smaller markets, the audit function is extremely important. This staff was advised by the market administrators that in most of the markets it has been the practice to audit each month's activity. However, the staff was advised by personnel in the office of the administrator of the New York-New Jersey area that an effort is being made to institute a system of test verification of selected months' operations, rather than an audit of each month's activity.

The handlers interviewed by this staff in the various markets had little concrete criticism to make of the audit functions. In several instances, handlers felt that too much time was spent on the audit. However, most handlers had no criticism to offer. In the Puget Sound area, the proprietor of a small dairy, whose wife kept the books, complained that the audits were too detailed. The specific complaint in this case was that the auditors insisted on examining endorsements on checks as well as the records. This staff ascertained that the examination of checks is a routine procedure in all audits. This handler and another handler in the area were extremely antagonistic to the order and objected to all phases of it. Their objections were general in nature and it appeared to this staff that they object to being regulated in any manner.

In the New York area, a certified public accountant, who is also executive director of an association of handlers and a former employee in the administrator's office, felt that the audit activity was very effective. The knowledge that the administrator's office was doing the audit, as well as the publicity that the administrator may give to the errors found in the reporting, helped keep the handlers' recordkeeping on a high level.

VII. Referendums

As noted previously, the Secretary may conduct a referendum among producers to ascertain whether the issuance of an order is favored by the producers. Where the Secretary can ascertain that a proposed order is favored by at least two-thirds of the producers in an area, he may issue the order without a referendum. However, this is done only in cases of minor or noncontroversial amendments to orders and when there is no indication of any objection to the proposed amendment. In one instance where a referendum was not used, the Secretary concluded that at least two-thirds of the producers approved the proposed amendment on the basis of a statement made by a producer organization, which comprised 90 percent of all producers in the area, that the organization approved the amendment. Referendums are used in all cases where new orders are promulgated, where areas are extended, or where there is indication of objection from any group of producers.

A. Procedures for holding referendums

When referendums are held the procedures prescribed by the Secretary are to be followed. These procedures require that each producer engaged in the production of milk for sale in the marketing area during the representative period shall be entitled to one vote. However, any qualified cooperative of producers may, if it elects to do so, cast the vote for the producers who are members of, stockholders in, or under contract with the association. The procedures also state that "* * * if a ballot is cast by any person whose name appears on the list of producers on whose behalf a qualified cooperative association is voting, such ballot shall be disqualified." Thus, if a producer's name is included among those being "voted by" a cooperative, his individual vote may not be recorded.

The procedures provide that the Secretary shall designate an agent to conduct the referendum. This agent is required to determine which producers are eligible to vote in the referendum. In addition, where any qualified producer association claims the right to vote for its members, the agent must examine membership contracts or otherwise ascertain that the association has the authority to cast a ballot for its members.

In the case of a mail referendum, the agent is required to send each eligible producer or cooperative, copies of the order or amendment being considered, a ballot, notice as to final date for submitting ballots, and an addressed envelope for return of the ballot. Cooperatives are instructed to submit a certified copy of the resolution of the board of directors authorizing the vote.

At the same time the ballots are mailed, the agent is required to send a notice of the referendum to the newspapers and radio stations

within the area, as well as to all county agents and the Production Marketing Administration (PMA) county committees within the milkshed. The notice also contains information as to how elgible producers who failed to receive the ballots may obtain them. In addition, the agent may use paid newspaper advertising or other means he may deem advisable.

If the referendum is to be conducted at polling places or at meetings of producers, the agent is required to issue notice of the date, places, and hours of voting or time of meetings. These notices are to be given to the newspapers and radio stations in the area and are to be posted at each polling place. The agent is required to give similar notices and a copy of the amendment or order to the county agents, the PMA committees, cooperative associations, and independent producers. The agent may also use paid advertising or other methods he considers advisable. The agent will appoint and instruct the persons who will be in charge of the balloting and these persons will serve without compensation. However, the agent must personally supervise the counting and tabulation of all ballots cast.

The referendum generally is to be completed within 15 days of the date on which the referendum was ordered. The referendum agent is required to submit a complete tabulation to the Secretary which shows the number of ballots mailed, the number voting, and the number for, against, or disqualified. If the referendum includes a vote for inclusion of an individual handler pool in the order, a separate tabulation is required of the vote on this phase of the order.

B. Comments on method of holding referendums

This staff during its inquiry received a number of complaints from independent producers and handlers concerning referendums. There were complaints concerning the block voting of cooperatives, the disregard of the individual votes of producers who were listed as members of cooperatives, the futility of individuals voting because of the predominating vote of the cooperatives, and whether the referendums were worthwhile, in view of the expense of holding referendums. In one instance there was a complaint that the referendum agent, who was also the area milk-marketing administrator, had failed to take all the actions required by the procedures as a means of publicizing the referendum. In another instance, there were complaints concerning the method of voting on the extension of the marketing area. The specific complaint in this matter was that the cooperatives in the original marketing area were so large that they were able to impose their will on the smaller group of producers in the area to which the order was to be extended. Several persons commented on the "all or nothing" vote that the producers must make in a referendum. That is, the producers must accept or reject an order in its entirety and may not accept parts of an order. Another complaint concerned the issuance of an amended order prior to the final date for voting in a referendum.

1. *Block voting by cooperatives.*—As noted previously, the Secretary, in determining whether producers approve the issuance of an order, is required to consider the vote of any cooperative as the vote of the individual producers who are members of the cooperative. For instance, a cooperative of 20,000 members, by the action of its

board of directors, may be voted as a unit despite the desires of certain of its individual members. There is little doubt that generally the cooperatives do reflect the attitude of the majority of the membership. The staff was assured by officials of the various cooperatives who were interviewed, that membership meetings are held in which the orders are explained and individual producers are encouraged to express their attitude toward the proposed order. These officials pointed out that they could not hold their positions for any period of time if they did not reflect the attitude of most of their members. However, it appears reasonable to believe that in any group there are probably divided opinions on practically every subject and that, as a result of the block voting, minority groups within the cooperative will be deprived of having their votes recorded in the referendum. Expressions on this matter were voiced by handlers and/or producers in most of the areas visited by this staff.

In connection with the question of block voting by the cooperatives, a complaint was received by this staff that the vote of an individual member of a cooperative was not recorded, even though the member voted as an individual. This procedure is in accordance with the regulations on referendums issued by the Secretary of Agriculture.

It was pointed out to this staff that members of a cooperative generally sign contracts of membership that are continuing, unless the member takes definite action to leave the organization. Usually the only time when the member may resign is during a short period of time prior to the anniversary date of his contract. Thus, even though an individual member may disagree with the position of his cooperative, and even take the trouble of voting, his vote will not be counted as an individual unless he had the foresight to resign from the cooperative during the open period during which resignations were accepted.

Another frequently heard comment by this staff was that an independent vote was ineffective because of the cooperative block votes. Independent producers advised this staff that it was a waste of time to vote. The independents felt that the cooperatives had the referendum "sewed up" and why waste time voting.

This attitude is reflected in the poor independent vote in the referendum dated June 25, 1957, on the extension of the New York order area. The following tabulation shows the number of eligible producers, whether they were members of cooperatives or independents, and how they voted.

	Eligible producers	Tabulation of votes cast			
		Total	Allowed	Favorable	Unfavorable
Cooperative	35,556	37,797	34,802	34,352	450
Individual	20,088	3,995	2,394	1,321	1,073
Total	55,644	41,792	37,196	35,673	1,523

It may be seen that, while 34,802 of 35,556 cooperate votes, or 97.8 percent of the total number of eligible cooperative producers, were voted, only 2,394 independent producers, or less than 12 percent of the 20,088 independent producers had their votes recorded.

One independent producer in the New York-New Jersey area, who is also a lawyer, advised this staff that he was very much opposed to the order. When asked if he had voted in the recent referendum, he stated that he hadn't as voting would be a waste of time. Other independent producers expressed similar sentiments to members of the staff.

2. *Necessity for holding referendums.*—In one area, the milk-market administrator questioned the necessity for holding referendums. He pointed out that, in his area, holding a referendum is expensive (costing approximately $500), consumes a great deal of time, and is generally required to be held within a limited period of time. This administrator also stated that at times a producer is not certain of the issues on which he is to vote. The producer may be in favor of a particular part of the order, but because of the "all or nothing" voting procedure he has to vote for parts of an order about which he knows nothing, or which he may oppose, to gain that part of the order which he favors. A larger handler in the same area suggested that the approval of the producers could be assumed in that changes in the orders are generally proposed by cooperative associations whose membership normally represents more than the necessary two-thirds of the producers. The administrator, in supporting his point of view, stated that even without the referendum the producers have the safeguard, provided in the act, whereby the Secretary is required to terminate an order whenever he finds that termination is favored by a majority of the producers who produce at least 50 percent of the milk.

3. *Failure to publicize referendums properly.*—The procedures of conduct for referendums provide that, when a referendum is conducted by mail, the newspapers, radio stations, county agents, and PMA (Production and Marketing Administration) county committees within the milkshed are to be given statements which contain the notice of the referendum and of the mailing of ballots to known producers, the final date for the return of the ballots, and the place where eligible producers may receive voting materials. In this connection, a handler who opposed the extension of a marketing area claimed that the referendum agent had failed to publicize the mail referendum by notice to the local newspapers, radio stations, county agents, and PMA county committees. In an interview with members of this staff, the referendum agent admitted that he had failed to follow the prescribed procedures but that he had satisfied himself by other means that he was aware of all producers in the area and that he had mailed ballots to all the independent producers. Nevertheless, the procedures of USDA for conducting a referendum were not followed.

4. *Eligibility of producers to vote on extension of market area.*—Another complaint concerning referendums dealt with the vote on the extension of the area to be included in the market. When the area is extended, all producers in the extended area (original area plus area to which order is to be extended) are eligible to vote on the extension. Thus, as is often the case, if a large area is to be extended to take in some small adjoining areas, the will of the larger group of producers in the original area may be imposed upon the smaller group who will be brought into the area. Therefore, it is possible that a group of producers may find themselves incorporated into a milk-

marketing area, even though a referendum of the producers who are to be brought under regulation might show an overwhelming vote against the extension. It is almost as if a referendum on a proposal to incorporate into a single unit a large metropolitan city and a small adjoining suburban community, which was favored by the city residents and opposed by residents of the suburban community, was decided by a majority of all those voting, rather than by the action of the voters within the separate communities.

5. *Acceptance or rejection of orders in entirety.*—In many cases the proposed orders are lengthy and complicated. Since the orders are issued only after hearings where generally opposing arguments are heard, the orders in their entirety probably do not represent the point of view of any one group, but do set forth what the Secretary deems best for all parties concerned. Thus, the same order may include terms which a producer favors as well as terms which the producer may violently oppose. The producer must weigh all parts of an order and decide whether he wants to accept the unfavorable parts of the order to get the terms that he favors. In view of the complexity of the orders, this decision is often a difficult task.

The USDA is of the opinion that, whenever the Secretary approves substantial changes on the basis of a hearing record, the rejection of such changes by referendum would create the presumption that the order, in absence of such changes, would not effectuate the purposes of the act. The requirement that producers must approve the order in the terms which the Secretary of Agriculture has approved, assures the public and all interested persons that the order includes only provisions which are in the public interest.

6. *Issuance of order prior to final date of vote.*—The act requires that, before an order is issued, the Secretary must ascertain by referendum or otherwise that the proposed order is favored by at least two-thirds of the producers. In one instance this staff ascertained that a requirement of a referendum was that ballots were to be postmarked no later than September 27, 1956, and the producers were to indicate their approval or disapproval of the order by mail. However, the Secretary issued the order on September 26, 1956, to be effective on October 1, 1956. Question was raised by this staff as to how it was possible to issue the order prior to completion of the referendum.

The referendum agent, who was also the local milk market administrator, explained to members of the staff that the votes were tabulated as they were received, rather than being held until all votes were received. In this case the agent advised the USDA prior to the final date for voting that two-thirds of the total eligible votes had been cast in favor of the order.

The tabulation of the votes cast in the referendum of September 1956 follows:

	Eligible producers	Tabulation of votes cast		
		Total	Favorable	Unfavorable
Cooperatives	868	868	732	136
Independent	271	54	37	17
Total	1,139	922	769	153

It will be noted that only 67.5 percent of the total number of eligible producers voted favorably on the amended order. In a sworn affidavit, the referendum agent stated that he informed the Secretary on September 24, 1956, that 765 favorable votes had been cast. In the remaining period it would appear that only four additional favorable votes were cast.

This staff questions the premature action taken in this instance by the referendum agent when the total favorable vote was only nine more than the required two-thirds of the number of producers eligible to vote. Although the final vote tally did not nullify the premature action taken in this instance, in view of the number of producers who failed to vote, it would appear that the vote margin was too close to permit the issuance of an order before all eligible producers had been given an opportunity to vote.

VIII. Role of Cooperatives in Milk Marketing Areas

Section VII on referendums sets forth some criticism directed at cooperatives, particularly complaints against bloc-voting and the feeling of independent producers that it was futile to vote in referendums because of the size of the cooperatives.

A. Influence of cooperatives in promulgation of orders

The cooperatives feel they have had considerable influence in stabilizing markets and fostering the promulgation of milk marketing orders. The National Milk Producers Federation, in their publication Why Regulate Fluid Milk Prices? stated:

> Basically, Federal milk orders are legal instruments for carrying out classified pricing arrangements similar to those developed by the cooperative associations in the early twenties.

The claim was made by a representative of an organization of cooperatives that milk orders were rarely approved unless the cooperatives sponsored them. This individual went so far as to say that only one order—the order in New Orleans—was ever approved without the use of the bloc-voting privilege of the cooperative.

It was recognized by the Secretary of Agriculture in a decision pertaining to the New York area filed on October 7, 1953, that—

> Active participation by producers in the regulation of milk marketing is feasible only by means of cooperative associations of producers.

This was substantially confirmed by staff interviews with producers in the field. Cooperatives have the staffs and the financial means with which to hire experts to foster the interests of their membership.

B. Attitude of cooperatives toward marketing orders

Usually, membership in a cooperative is indicated by a contract between the producer and the cooperative. In most of the contracts noted by this staff, the cooperative was granted exclusive rights to market the producers' milk for which the cooperative was required to obtain the best available price. In the case of marketing cooperatives, where payments are made by handlers directly to producers, the contract also authorized the handler to check off or deduct a fixed payment per hundredweight for all milk delivered to the handler. This payment is to cover dues, marketing services, such as testing, market in-

formation, etc. In other cases, a handler may make full payment to a cooperative which will deduct its authorized fees and then pay the balance to the membership. Operating cooperatives will return to their members all amounts in excess of expenses and allowable reserves.

Staff members interviewed officials of cooperatives in each area visited. In almost every market it was found that the cooperatives favored the milk marketing orders. In some instances the cooperatives were opposed to a particular part of the order or wanted an amendment to the order. In the New York-New Jersey market staff members met with a group of cooperatives who had been opposed to the extension of the original New York area to include New Jersey. This group would have preferred separate orders. However, even in this instance, the cooperatives heartily endorsed marketing orders.

The promulgation of marketing orders has not necessarily affected the growth of cooperatives. The staff was advised by the director of economics of a national organization of cooperatives that about 60 percent of all milk produced is handled by cooperatives. However, he believed that the cooperatives handle almost 90 percent of the fluid milk business. There were no figures made available to this staff which showed that the overall percentage of producers who are members of cooperatives was higher in federally regulated markets than in unregulated markets. Data prepared by the USDA discloses that in December 1956, 77.5 percent of the milk producers in 54 federally regulated areas belonged to cooperatives.

In the New York area, where comparative figures were available, the number of producers, as well as the percentage of producers who belong to cooperatives, has declined since the institution of the order. In January 1940, 73.9 percent of all producers in this market belonged to cooperatives—61 percent in federated cooperatives and 12.9 percent in unaffiliated cooperatives. In June 1952 only 70.4 percent of the producers were members of cooperatives—50.5 percent in federated cooperatives and 19.9 percent in unaffiliated groups. There was not only a reduction in the overall percentage, but a shift from the federated to the unaffiliated cooperative.

The trend continued downward, and in 1955 only 68 percent of the producers in the New York market were members of cooperatives. There was some recovery in membership and in December 1956, 17.3 percent of producers were in cooperatives.

C. Attitude of Department of Agriculture re role of cooperatives

In a decision issued on October 7, 1953, on the handling of milk in the New York metropolitan area, the Secretary stated that it was not feasible for producers to participate in the regulation of markets except through cooperatives. He felt that the cooperatives performed certain essential marketwide activities which benefited all producers. Such services included research and analysis of marketing problems, participation in hearings on milk orders, keeping producers advised about marketing problems, etc. Some of the cooperatives even maintained manufacturing plants for surplus milk.

In the same decision, the Secretary stated that the—

> * * * performance of essential marketwide services for the benefit of all producers in the market requires strong and vigorous cooperative associations or federations of cooperatives * * *. Without cooperative payments the cost of the marketwide services rendered by cooperative associations and federations

must be borne exclusively by their members, resulting in an unfair disparity between members and nonmembers. The impact on members of paying the cost of such marketwide services tends to discourage membership in cooperatives, and that tendency or discouragement thus impairs or prevents the development of the only means by which producers can be represented effectively. *A failure to pay cooperative associations for services benefiting all producers would be contrary to long-established public policy to encourage the development and expansion of cooperative associations of farmers as reflected in the relevant acts of Congress, and to pay cooperatives, in the manner provided in the amendments contained herein, for services which they render in the interest of all producers is consistent with that established public policy.* [Emphasis supplied.]

Any payments to cooperatives for the performance of marketwide services should be borne equally by all producers and not merely by producers who are members of a particular group. Members of the participating cooperatives and nonmembers have equal interests in the producer-settlement fund, and their contribution to the cost of these marketwide services should be the same. All producers receive the value of such marketwide services, and all producers should, under this regulatory program, pay for them on the same pro rata basis without regard to whether or not they happen to be members of the cooperative associations which are performing the services * * *. Accordingly, payments should be made to cooperatives out of the producer-settlement fund for the performance of the marketwide services contained in the amendments set forth in the decision.

Acting on this conclusion, the Secretary issued an amendment to the order regulating the New York area which provided that payments be made to qualified cooperatives or federations out of the producer-settlement fund for marketwide services. To qualify for such payments, a cooperative or federation of cooperatives must have at least 4,000 members and receive from its members at least 1 cent per hundredweight for milk delivered by them. Such an organization shall receive from the settlement fund 2 cents a hundredweight for all milk received from its members. If the cooperative (or federation) has at least 6,000 members, it will receive an additional 1 cent per hundredweight from the fund. Similarly, if it operates marketing facilities that receive at least 25 percent of the milk marketed by its members, it will receive an additional 1 cent a hundredweight. Thus, a marketing cooperative with at least 6,000 members will receive 4 cents a hundredweight for all milk marketed by its members.

The cooperatives or federations who receive these amounts must perform the following marketwide services:

1. Analyze milk marketing problems and their solution.
2. Conduct market research and maintain current information as to all market developments.
3. Prepare and assemble statistical data relative to prices and marketing conditions.
4. Make economic analyses of all such data.
5. Determine the need for formulation of amendments to the order and propose such amendments or request other appropriate action from the Secretary or Milk Market Administrator.
6. Participate in proceedings with respect to amendment to the order and participate by voting or otherwise in referendums pertaining to amendments.
7. Participate in meetings called by the Market Administrator, including preparation of briefs, etc.
8. Conduct a comprehensive educational program among producers—members and nonmembers.

9. Operate adequate marketing facilities if it is to receive the additional 1 cent a hundredweight for such a service.

D. Action of United States courts on marketwide deductions

The staff was advised by the Deputy Director of the Dairy Division that the New York-New Jersey order is unique in that it is the only order providing for marketwide deductions from the producer-settlement fund for payment to qualified cooperative organizations. At one time there were comparable provisions in the orders for the Boston and Cincinnati markets. However, the decision of the Supreme Court in *Brannan* v. *Stark* (342 U. S. 451), precluded payments to cooperatives in the Boston area on the ground that the services furnished by the cooperatives would be of little benefit to nonmembers. Following this decision, the Secretary suspended the similar provisions of the Cincinnati order. However, the Secretary ruled in his decision of October 7, 1953, that—

*** * * the Court's opinion in *Brannan* v. *Stark* relates to an order in another market, and the evidentiary facts and provisions in that case are significantly different, in various respects, from those involved in this rulemaking proceeding.**

Accordingly, the New York order containing the provisions for the marketwide contributions to the cooperatives was permitted to go into effect.

An action was brought by several producers to restrain the Secretary of Agriculture from distributing to the cooperatives, the marketwide deductions from the producer-settlement fund. However, the United States District Court for the District of Columbia, held, in an opinion dated July 8, 1954, on civil action 1081–52, that it—

*** * * may not substitute its judgment for the Secretary's findings of fact and conclusions thereon, where the findings of fact are supported by substantial evidence.**

This opinion was upheld in a decision handed down by the United States Court of Appeals for the District of Columbia on December 8, 1955. Circuit Judge Danaher concurred in the decision written by Circuit Judge Fahy. Judge Prettyman dissented, stating that it seemed clear to him that—

*** * * the Supreme Court held the same conditions present in our case, or certainly very similar conditions, not to justify deductions for payments to the cooperatives.**

In September 1957, the total deduction from the producer-settlement fund for payment to 4 qualified cooperatives was $142,720. This amounted to $2.56 for each of the 55,644 producers who were eligible to vote in the recent extension of the New York order. At this rate, each producer, whether or not he is a member of a cooperative, is required to pay at least $30 a year to the cooperatives. This is not a direct payment, but a reduction in the payment he receives for his milk.

This marketwide deduction was the subject of a comment by an official of an organization of handlers in the New York market. He recognized that the money was not coming from handlers but from the producers. However, he felt that the independent producer who declined to join and support a cooperative should not be required to take a reduced payment and thus support the cooperatives financially. If producers wanted to join cooperatives, they should finance their organization directly.

The few independent producers who were interviewed did not volunteer comments on this phase of the order. Staff members felt that the independent producers were not too familiar with this section of the order. One independent producer did comment that the present order was too long and complex. He felt that the entire order should be discarded and a new simple order issued, if an order was necessary.

This staff is at a loss to understand the propriety of making deductions from amounts payable to all producers to support organizations to which only some of the producers belong. Membership in a cooperative is not mandatory and, if a producer declines to join and make voluntary payments to a cooperative, he should not be required to make payments to a cooperative through a reduced price for his own milk.

It is recognized that the cooperatives who receive the payments are required to perform certain marketwide services which may benefit all producers, both members and nonmembers. It is also recognized that there may be situations where the interests of an individual producer may not coincide with the interests of a cooperative. Undoubtedly, there are situations where the interests of a majority of the members of a cooperative may not agree with the interests of a sizable minority. However, the member, even if in disagreement with the majority, has a right to have his voice heard and his vote counted in arriving at positions which the cooperative will sponsor. The nonmember who is also contributing to the support of the cooperative has no such right. This staff can well understand the resentment of the nonmember producer who is required to take a reduction in price to support a cooperative, over which he has no control, and which may be sponsoring action that he feels is not in his own best interest.

IX. Qualification of Cooperatives in the St. Louis Milk-Marketing Area

In connection with the inquiry into the administration of milk-marketing orders, this staff was requested to look into the circumstances surrounding the qualification of a cooperative in the St. Louis area.

A. Capper-Volstead Act for qualification of cooperatives

Federal order No. 3, under which the St. Louis milk-marketing area operated, provided that a cooperative association which the Secretary determined to be qualified under the Capper-Volstead Act could receive payment for performing certain marketing services.

The Capper-Volstead Act (7 U. S. C. 291), which was enacted on February 18, 1922, gave the various types of agricultural producers authority to associate together in corporations or otherwise, in order to process, market, or handle their production; provided that the associations were operated for the mutual benefit of their members. The act further provided that these associations could not deal in the products of nonmembers in an amount greater in value than the value of the products handled for its members. In addition, the law required that each member of the association be limited to one vote or that dividends be limited to 8 percent a year.

B. Request for qualification of Prairie Farms Creamery

On April 19, 1956, the Prairie Farms Creamery, of Carlinville, filed an application requesting that they be qualified as a cooperative association in the St. Louis milk-marketing area. The application stated, along with other information, that Prairie Farms had 100 producers at its dairy in Carlyle, Ill., who had St. Louis grade A permits. If Prairie Farms were qualified, it could perform marketing services for its members, vote for its members in referendums, and perform all other functions that a qualified cooperative may perform for its members. On May 21, 1956, the Dairy Division advised Prairie Farms, of Carlinville, that, since it was a nonpool plant under the St. Louis order, its members were not considered producers in the St. Louis market and, therefore, Prairie Farms, of Carlinville, could not be qualified to act for its members in the St. Louis market.

On May 26, 1956, Prairie Farms of Carlinville asked for reconsideration of its application since it was located so close to the St. Louis market, had made payments to the St. Louis Health Department and the market administrator, and because in January 1956, its sales in the St. Louis market exceeded 25 percent of its total receipts.

The application was reconsidered by the Dairy Division. The information in the Division files notes that the Carlyle plant leased by Prairie Farms of Carlinville was a pool plant under the St. Louis order. However, the Carlinville plant had, by agreement, relinquished to Sanitary Milk Producers Association, the bargaining activities for producers supplying plants regulated by the St. Louis order. Therefore, Prairie Farms was precluded from qualifying the Carlyle plant for voting purposes. Further, a memorandum in the files stated that the marketing services for the producers at Carlyle were being performed by two qualified cooperatives for its members and by the administrator's office for independent producers. However, on September 17, 1956, Prairie Farms of Carlinville reported to the administrator that 2 or 3 producers had signed a membership agreement with them.

C. Prairie Farms class B stock held by Illinois Agricultural Association

On January 31, 1957, the Dairy Division requested that Prairie Farms of Carlinville submit a statement as to why the information in the hands of the Dairy Division "should not bear adversely" on Prairie Farms' request for qualification. In this letter, the Division raised the matter of the class B stock held by the Illinois Agricultural Association (IAA) and the question of control of the local association, through the class B stock.

During February 1957, a meeting was held between the manager of Prairie Farms, and the Director of the Dairy Division. On February 28, 1957, the dairy manager, in a letter to the Division, noted his understanding of the matters discussed at the meeting. In this letter he also stated—

I believe everyone fully understands, and it was also my thinking, that the group came to the conclusion that this plant now meets all of the necessary requirements for qualification under Federal order No. 3. However, a decision has not been given because of the B stock that is held by the Illinois Agricultural Association.

The Director of the Division replied on March 21, 1957, stating—

> After discussing the various questions raised in our previous correspondence with you, it was our feeling that there was no barrier to qualification that your association could not remove by its own action, with the possible exception of the class B stock question.

D. Proposed amendment to marketing order defining qualified cooperative

During the period of this interchange of letters, the Department on March 1, 1957, issued a notice of hearing on proposed amendments to the St. Louis area marketing order. This notice contained a proposal from the Producers Creamery Co. (submitted on November 14, 1956) which would have added a definition of a qualified cooperative association to the order. Under the proposed definition, in order to qualify, a cooperative, among other requirements, would have to be governed by the principle of "1 member—1 vote" so as to have its entire activities under the complete control of its members. This proposal was supported by the Sanitary Milk Producers Association, which represented a majority of the shippers at the Carlyle plant.

The hearing notice also included a proposal by Prairie Farms of Southern Illinois (into which Prairie Farms of Carlinville had been merged) that a cooperative association be defined as—

> * * * any cooperative association of producers, bona fide engaged in marketing producer milk covered by order No. 3, as amended, or in rendering services for or advancing the interests of the producers of such producer milk.

This language is almost identical with that of the Agricultural Marketing Agreement Act of 1937, under which marketing orders are issued.

Either of these proposals would have settled the question of whether Prairie Farms could have been qualified under the order. The proposal advanced by Producers Creamery and supported by Sanitary Producers with its "1 member—1 vote" requirement would have precluded qualification of Prairie Farms because of the Illinois requirement that all stock has voting rights and because of the controlling B stock held by the Illinois Agricultural Association. Under the proposals advanced by Prairie Farms, they could have been qualified by the Secretary.

During the course of the hearings the proponents of the proposal advanced by Prairie Farms emphasized that they wanted the definition to follow the language of the act of 1937. The opponents of the proposal raised the question of control of a cooperative by its members. But the proponents emphasized their feeling that if—

> * * * a cooperative is recognized as a cooperative by State, Federal laws, everything else dealing with cooperatives. It certainly should qualify under Federal order 3.

The proponents of the "1 member—1 vote" proposal claimed that their proposal was not unique. They stated that—

> * * * As a matter of fact, it is found in varying forms in nearly all other marketing orders in the United States.

The proponents emphasized the importance of the "1 member—1 vote" rule as a device to prevent manipulation of cooperatives by special interest groups and to insure that the cooperative would remain under

the direct and complete control of its active producer members and patrons.

Staff discussion with the responsible employees of the Dairy Division revealed that many orders provide that cooperatives must qualify under the Capper-Volstead Act and/or contain language requiring that the activities of the cooperative be under complete control of its members. The staff was assured that no milk marketing orders required the "1 member—1 vote" as a basis for qualifying cooperatives.

The National Milk Producers Federation (an association of milk cooperatives of which the Sanitary Milk Producers Association is a part) furnished a brief in support of the "1 member—1 vote" rule. In this brief, the Federation stated that, from the wording in the Capper-Volstead Act (42 Stat. 388) which authorized the association of producers of agricultural products—

> * * * it is clear that Congress intended that dairy cooperatives be owned and controlled by dairy farmer members * * *.

The brief also cited the decision of the Supreme Court in the case of *United States* v. *Rock Royal Cooperative* (307 U. S. 533) which stated—

> The general characteristics of cooperatives are well understood. The Capper-Volstead Act defines such cooperatives as associations of producers, corporate or otherwise, with or without capital stock, marketing their product for the mutual benefit of *the members as producers with equal voting privileges*, restricted dividends on capital employed and dealings limited to 50 percent nonmembers' product. [Emphasis supplied.]

The counsel for the Illinois Agricultural Association, which is the Farm Bureau of Illinois, testified at the hearings in opposition to the "1 member—1 vote" proposal. This gentleman pointed out that his association had sponsored the organization of many cooperatives, and that there were at least 150 cooperatives, including a number of Illinois dairy cooperatives who are organized with capital stock under the Illinois law. The law provides that there shall be one vote for each share of stock, and further provides that each shareholder shall be permitted to accumulate his votes in the election of directors. He also stated that his association owns a substantial number of shares of stock in at least 150 cooperatives, which it had sponsored. The association held this stock for the purpose of assuring that control of the cooperatives would remain in the hands of agriculture producers.

During his testimony, the Illinois Agricultural Association counsel pointed out that these cooperatives have been recognized as Capper-Volstead cooperatives. Some have had income tax exemptions, been recognized as cooperatives for the purpose of obtaining credit from the banks of cooperatives, and some have been recognized as cooperative associations under other Federal milk orders.

The IAA counsel also stated that the control exercised by the association has never been used in any dairy cooperative to interfere with the control of the local cooperative by its own board and management. Moreover, the use of the class B stock which is held by the association has been greatly limited by a so-called policy resolution, adopted by the Farm Bureau, which has about the same status as a bylaw. The class B stock can only be voted under certain stipulated conditions, upon approval of Farm Bureau boards.

Upon cross-examination, the IAA representative stated that some stock in the cooperatives is held by persons not engaged in agriculture. He also said that approximately 40,000 or 50,000 of the association's 190,000 members were dairy farmers. In connection with the voting of the association's B stock, he agreed that in one instance, that of a grain cooperative, the stock was voted in the election of directors.

In an interview with a member of this staff, the IAA counsel emphasized that the right to vote B stock is limited. It will be voted for quorum purposes. Beyond this, it will be voted where request is made by the local Farm Bureau groups, and then only with the majority of other shares.

This gentleman stated that, because sometimes shares of stock in cooperatives get into hands of nonfarmers, it was important for the association to hold the B stock so that they could assure that control was kept in the hands of agricultural producers. He acknowledged that the B stock had been used in connection with the grain cooperative. He felt that this had been an unfortunate move and he was certain that this would not happen again.

The Illinois Agricultural Association also furnished a brief in this matter in which they pointed out that the inclusion of the "1 member—1 vote" principle in the order would discriminate against stock cooperatives organized in Illinois and against cooperatives sponsored by the Illinois Agricultural Association. The brief also claimed that the "1 member—1 vote" principle was not made in good faith, as there was no evidence of its necessity.

The notice of the recommended decision issued on September 12, 1957, defined a cooperative association as—

> * * * any cooperative marketing association of producers * * * which the Secretary determines after application by the association is qualified under the provisions of the Capper-Volstead Act.

The period for filing exceptions to the recommended decision, of which this is a part, was extended to November 21, 1957.

E. Decision by Department on qualification of Prairie Farms

On March 15, 1957, the hearings on the proposed amendments to the St. Louis order were concluded. On March 25, 1957, the Illinois Agricultural Association, in a letter to the Dairy Division, requested that Prairie Farms be qualified as a cooperative if the class B stock was the only remaining issue, and that the problem of class B control stock be considered as an independent question. The letter stated that:

> This issue is far too important to be resolved in connection with a difference of views between two dairy cooperatives.

On July 10, 1957, a memorandum was addressed to the Deputy Administrator of Agricultural Marketing Service by the Director of the Dairy Division recommending that the application of Prairie Farms to qualify as a cooperative on the St. Louis market be denied—

> * * * by reason of inability on the part of member patrons to control fully the association's activities.

This draft not approved by G. C. office on basis of conclusions re control by members. ("G. C." refers to the Office of General Counsel of the Department of Agriculture.)

On September 3, 1957, a revised memorandum, addressed to the Deputy Administrator by the Dairy Division, recommended that Prairie Farms by qualified. This memorandum noted that—

* * * the Illinois Agricultural Association holds class B stock in the applicant association, which may be issued up to the combined amounts of all other stocks outstanding. This in effect permits the Illinois Agricultural Association to control the activities of the applicant association.

There was a penciled note on the first page of the original of this memorandum which read:

The memorandum concluded with the following paragraphs:

We feel that there remains a serious question as to whether the intent and legislative history of the Capper-Volstead Act and the Agricultural Marketing Agreement Act of 1937 might not require that an association of producers desiring qualification as a Capper-Volstead cooperative, have full control of the marketing process in the hands of those producers whose products are marketed by the association. The class B stock limits such control in the case of the applicant association.

However, in view of past administrative actions and the position of the Office of the General Counsel in this matter, and since the association meets all other requirements for qualification, we recommend that the Prairie Farms Creamery of Southern Illinois be qualified pursuant to the St. Louis order effective September 1, 1957.

On September 12, 1957, the Deputy Administrator, Agricultural Marketing Service, issued determination No. 903.509, which stated that, effective September 1, 1957, Prairie Farms was a qualified cooperative association.

F. Comments by interested persons on qualification of Prairie Farms

Prairie Farms' request for qualification as a cooperative has been granted, and the recommended decision on amendments to the St. Louis order includes a definition of a "qualified cooperative" under which Prairie Farms may continue to qualify. However, there is still a considerable amount of discussion on the matter.

Sanitary Milk Producers Association which was a leader in the effort to define the qualified cooperative as one which adheres to the principle of "one member—one vote," views the qualification of Prairie Farms as a danger to the whole cooperative movement. They state that Prairie Farms is controlled by Illinois Agricultural Association, only one-third of whose members are connected with dairying. They claim that the preferred stock in the Carlyle Dairy (which is part of Prairie Farms) is held by doctors, handlers, etc. They point out that Prairie Farms has less than five producers whom it represents, and is only trying to get "its foot in the door" so that they can take over all the producers. They claim that the Illinois Agricultural Association and the Farm Bureau are interested in this so that they can control cooperatives everywhere.

The manager of Prairie Farms felt that, since Prairie Farms had been qualified, they would be able to serve their members better. It is true that Prairie Farms has fewer than five producers actually under contract at this time, but they expect to expand. Previously they had been unable to sign up producers because they could not offer the producers the usual marketing services. The manager stated that

he did not expect to "raid" Sanitary Producers or any other qualified cooperative. He expected that, with qualification, Prairie Farms would attract new producers and have 50 to 70 shippers within the next 5 years. He also emphasized that the request for qualification as a cooperative was based on a desire to improve the services to their shippers. He feels that Prairie Farms has more to offer producers than other cooperatives in the area.

The manager of the dairy stated that now Prairie Farms would be on an equal footing with other cooperatives. He insisted that there were no economic factors involved, merely a desire to serve their members. He stated that he felt that Prairie Farms had been discriminated against by the milk administrator in the past because of their status as a nonqualified plant. Now, with qualification, he hopes that this condition will cease to exist.

In his discussion with a member of the staff, the counsel for the Illinois Agricultural Association, stated that he felt that the whole situation—the subject of qualification and the proposals for defining a qualified cooperative in the order—was quite possibly the result of a conflict of personalities between the manager of Prairie Farms and the manager of Sanitary Producers. The IAA counsel stated that his association had become interested in the hearing because of Prairie Farms' affiliation with Illinois Agricultural Association and because the issue of B stock control was very important in view of the large number of other cooperatives involved. He mentioned a belief in some circles that the question of B stock control would never have come up if Prairie Farms had not applied for qualification. He felt that there had been an unusually long delay in acting on Prairie Farms' request for qualification and that perhaps cooperatives under the Illinois Agricultural Association had not been accepted on the same basis as other producer cooperatives. However, now that the matter had been settled, he believed Prairie Farms and other cooperatives would be on the same footing and could coexist in the St. Louis area.

Comments of the Department of Agriculture With Respect to the Report of an Inquiry Into the Administration of Marketing Agreements, United States Department of Agriculture, by the Surveys and Investigation Staff of the House Appropriations Committee

The report of an inquiry into the administration of marketing agreements, United States Department of Agriculture, by the surveys and investigation staff of the House Appropriations Committee, contains a summary of the main points of the report and so we have not attempted to summarize it here. The report is an excellent and accurate description of activities in connection with the Federal milk order program. There are a number of matters, however, concerning which the Department wishes to comment. These relate to those parts of the report which refer to the conduct of one referendum, the issuance of a milk order before the completion of a referendum, the provision for cooperative payments such as under the New York milk marketing order, and the statutory requirements relative to unit voting by cooperative associations.

It is stated in the report that in connection with the conduct of one referendum, all the procedures specified in the Department's referendum regulations were not carried out by the referendum agent. The report states that the referendum agent failed "to publicize the mail referendum by notice to the local newspapers, radio stations, county agents, and PMA county committees" as required by the referendum regulations. The referendum agent admits these omissions.

The report, however, should be supplemented by the fact that by investigative procedures the referendum agent had previously ascertained the names and addressses of *all* eligible producers, that he mailed to all such eligible producers, either individually or through their cooperatives, a ballot, a copy of the order in question, and instructions for completing and mailing the ballot and that, hence, no purpose would have been served by the mailing of similar materials to newspapers, radio stations, etc. Moreover, this omission on the part of the referendum agent was the subject of a lawsuit in which all the pertinent facts involved were submitted to a Federal district court, and the court found that no injury resulted to anyone as a result of these omissions.

The report questions the advisability of issuing an order before the referendum is completed. The Agricultural Marketing Agreement Act requires that at least 66⅔ percent of the producers eligible to vote must favor the issuance of an order or amended order before it may be made effective. Although he is not required to do so, the Secretary may conduct a referendum to ascertain producer approval in which case 66⅔ percent of the producers who actually vote must favor the order. In the case at hand, a referendum was ordered. Before the completion date of the referendum, however, it was ascertained by the referendum agent that 66⅔ percent of *all producers eligible to vote* (as distinguished from only those who actually voted in the referendum) had signified their approval of the order. Consequently, it was then a mathematical certainty that a sufficient number of producers had signified their approval to authorize the Secretary to issue the order no matter which way the remaining producers cast their ballots.

The amendment in question involved the extension of the marketing area, an increase in the class II price, revision of the base rules, and a change in handler location adjustments. Each of these changes was important to the orderly marketing of milk in the area. It consequently was desirable to make the amended order effective as expeditiously as possible. Because accounting systems under Federal orders are carried out on a monthly basis, it is very difficult to change order provisions except at the beginning of each month. If the order had not been amended effective October 1, it would have been necessary to delay the effective date until November 1. The necessity of obtaining Federal Register publication before the first of the month made it undesirable to await completion of the referendum. Under the circumstances, it appears entirely appropriate that the determination of sufficient producer approval should have been made prior to the last day of the referendum and the order made effective on the first of October. It should be noted that this is an isolated instance based on unusual circumstances and the procedure followed in this case would rarely be required.

The staff reflected concern about the propriety of the so-called "cooperative payments" such as those included in the New York milk marketing order. The cooperative payment provisions of the New York order have been thoroughly tested in the courts and found to be in accordance with law. The report points out that the case was tried in the District Court for the District of Columbia and reviewed in the United States Court of Appeals for the District of Columbia. The report does not mention, however, that a petition for certiorari was entered in the United States Supreme Court and it was denied.

The Secretary, in the promulgation of a milk marketing order or any provision thereof, is bound by the evidence presented on the record of a public hearing. In the case of the cooperative payment provisions of the New York order, the evidence strongly supported the need for such provisions. (The primary witnesses in favor of the provisions were a group of agricultural college specialists who were convinced that orderly marketing of all producers' milk in the New York milkshed could not be maintained unless such a provision were incorporated in the order.)

These provisions were tested by the whole system of Federal courts and found to be in accordance with law. If the Secretary is to act strictly in compliance with law in the promulgation and amendment of milk marketing orders, we cannot see, under the circumstances prevailing here, how it would have been possible for him to act other than he did in this matter.

The material in Part VII. Referendums but particularly the material under A. Procedures for Holding Referendums leaves the impression that the practice of unit voting by cooperative associations stems from "procedures prescribed by the Secretary." The fact is, of course, that the Secretary has no discretion in the matter of allowing a cooperative to vote as a unit for all of its members, since this is specifically required by the Agricultural Marketing Agreement Act itself (see Agricultural Marketing Agreement Act of 1937, 608c (12)).

In connection with the problem relating to qualification of cooperatives for market service payments dealt with in the report, it should be noted that the Agricultural Marketing Agreement Act of 1937 specifically requires that if a cooperative qualifies as a Capper-Volstead Act cooperative under the provisions of that act and renders the services, such cooperative is entitled to receive payments for such services. Under these circumstances, the Secretary has no discretion under the Agricultural Market Agreement Act, but to exempt the members of such a cooperative from the market service assessments payable to the market administrator.

In addition to the foregoing statement, we wish to make the following comments on specific statements in the report as follows:

On page v under the paragraph headed "A. Influence of cooperatives in promulgation of orders" the report says that the

> Secretary has stated producers can participate in milk marketing only through cooperatives.

A more appropriate reflection of departmental policy would be that the "Secretary has stated producers can participate most effectively in milk marketing orders through cooperatives."

In the first paragraph, page 4, the report states that the law authorizes the Secretary, with the approval of the President, to make

such regulations as may be necessary to carry out powers vested in the Secretary. The Agricultural Marketing Agreement Act no longer requires the Secretary to obtain the approval of the President with respect to the issuance of milk marketing orders.

The last sentence of the second paragraph on page 4 states

The notice of hearing must be published in the Federal Register at least 15 days before the date of hearing (at least 3 days in the case of amendments to marketing orders).

We wish to point out that the notice of hearing must be published in the Federal Register at least 15 days before the date of the hearing on new orders and on amendments to orders which include an extension of the marketing area. In the case of amendments not including the extension of the marketing area, at least 3 days' notice must be given.

The first sentence of the third paragraph on page 4 seems to indicate that the hearing clerk gives notice of the hearings and issues press releases. This is not the case. We feel it would be more appropriate to say that,

In addition to publication in the Federal Register, the Department gives notice of the hearing by mailing copies of the notice of the hearing to interested persons and to the governors of the States involved and by issuing press releases containing the contents of the hearing notice for the purpose of bringing the notice to the attention of interested persons.

On page 7 the first paragraph under Section VI. Milk Marketing Orders, states that

According to the USDA, the purpose of the milk marketing order is to assure that an ample supply of wholesome milk is available to consumers at all times. This is done by promoting and maintaining orderly marketing of milk by producers.

These statements do not include any reference to returns to producers which is an important aspect of milk marketing orders. This paragraph would be more precise if it stated that,

According to the USDA, the purpose of a milk marketing order is to establish such orderly marketing conditions that returns to producers will be maintained at levels which will assure an adequate supply of pure and wholesome milk for consumers in the regulated marketing area.

The second paragraph on page 9 discusses the regulation of producer-handlers and indicates some are regulated and some are exempt, citing central Mississippi and Inland Empire areas as examples. The Department has not found it necessary to regulate a producer-handler as such (i. e. producers who market only their own milk). Accordingly, we feel this paragraph should say that,

Although the Agricultural Marketing Agreement Act authorizes the regulation of producer-handlers (i. e. producers who market only their own milk), the Department has not in any present order found it necessary to extend regulation to such handlers in order to obtain the orderly marketing conditions envisaged by the statute.

THE 1957 SOIL-BANK PROGRAMS, UNITED STATES DEPARTMENT OF AGRICULTURE

A REPORT TO THE COMMITTEE ON APPROPRIATIONS, UNITED STATES HOUSE OF REPRESENTATIVES, BY SURVEYS AND INVESTIGATIONS STAFF, FEBRUARY 1958

PART I—ACREAGE-RESERVE PROGRAM

SUMMARY AND TABLE OF CONTENTS

I. DIRECTIVE

II. SCOPE

III. ACREAGE-REDUCTION PROGRAMS

Department's production adjustment programs for basic commodities seek to bring supplies in line with national needs by curtailing acreage. National acreage allotments determined by formula prescribed by law except when law prescribes minimum allotments. For 1957 corn and tobacco allotments determined by supply formula were 37.3 million acres and 1.17 million acres, respectively. Supply formula not operative for wheat, cotton, and rice because of statutory minimum allotments which in 1957 were 55 million acres for wheat, 17.6 million acres for upland cotton, and 1.65 million acres for rice.

IV. SOIL-BANK PROGRAMS

A. SOIL BANK ACT

Acreage-reserve program (ARP) authorized for crop years 1956–59 with annual expenditure limited to $750 million. Conservation reserve program (CRP) authorized for years 1956–60 with annual expenditure limited to $450 million. Both programs seek to remove cropland from production of commodities in surplus supply. CRP also requires producers to establish long-range conservation practices.

B. SOIL-BANK PARTICIPATION BY STATES

914,396 ARP agreements and 82,588 CRP agreements in effect during 1957. Total acreage covered by agreements was 27.9 million acres, calling for total payments of $717 million. Kansas, Texas, and Nebraska, largest participants. Rhode Island (no participation), New Hampshire, and Vermont, smallest participants.

V. ACREAGE-RESERVE PROGRAM

A. OBJECTIVE

Objective of ARP is to curtail production of basic crops by reducing acreages below established allotments. Producers reducing acreages below allotments compensated for loss of income from land placed in ARP.

B. INITIATION OF PROGRAM

Winter wheat 1957 ARP announced July 6, 1956. ARP for upland cotton, corn, spring wheat, rice, and tobacco announced December 26, 1956. Peanuts and long-staple cotton excluded from 1957 ARP.

C. ACREAGE-RESERVE AGREEMENTS

1957 ARP agreements similar to 1956 agreement. Agreements require participant to furnish detail and identification of acreage placed in program. By sign-

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ing agreement participant agrees to all regulations. While participant does not specifically certify production will be reduced, he agrees to reduce planted acreage of specific crop on farm. Agreements and regulations fail to require cross-compliance of all farms, thereby allowing producer to participate in program on one farm and exceed allotment on second farm. Staff believes this practice could be controlled by enforcement of regulation prohibiting scheme or device to defeat purpose of agreement.

D. CHANGES IN REGULATIONS

1957 ARP regulations included as an appendix to this report. These regulations are similar to those of 1956 except for some additional restrictions on eligibility of land or producers and change in computing compensation. New regulations in 1958 tightened ARP by limiting total harvested crops, further limiting eligibility of land, and providing for an incentive for continued participation in ARP. 1958 regulations also deny payment to a producer on one farm who substantially exceeds his allotment on another farm.

E. NATIONAL RATES OF PAYMENT

National base unit rates for all five commodities same as 1956. National rate per acre for wheat and tobacco same as 1956, but higher for corn, cotton, and rice because of higher average yields.

F. 1957 ARP GOALS

Acreage reserve goals established for 1957 ARP ranged from 20,300,000 to 25,365,000 acres.

G. ALLOCATION OF FUNDS

Preliminary fund allocation for wheat was $267.6 million; for corn and upland cotton $217.5 million each; for tobacco $34 million; and for rice $14 million. Allocations to States based primarily on State allotments. No funds allocated for Maine or Rhode Island.

H. PRODUCER PARTICIPATION

Report of May 17, 1957, most recent report available, discloses that in the 1957 ARP more than 914,000 agreements were executed covering 21.4 million acres of land with maximum compensation of $613.8 million. Wheat participation amounted to $230.9 million; corn $196.4 million; cotton $153.3 million; tobacco $17.8 million; and rice $15.5 million. Participation in 1956 ARP amounted to $260.4 million.

I. FUNDS OBLIGATED BY COMMODITY AND STATE

Total of $613.8 million obligated, with Kansas' share $84.9 million; Texas $56.2 million; and Nebraska $44.3 million. Maine and Rhode Island had no participation, and New Hampshire has less than $500. As of November 30, 1957, producers paid $603.7 million.

VI. Shifting of Acreage and Production

Although acreage was retired from production of ARP commodities, acreages planted for production of certain non-ARP commodities increased. In areas where summer fallow is part of producers' rotation plan, some placed fallow land in ARP and planted increased non-ARP crops on land normally used for ARP crops. While production of wheat decreased, production of sorghums and barley increased. Sorghum production in 1957 was more than double 1956 and more than 3 times the 10-year average. 1958 ARP regulations provide for soil-bank base with limitation on total harvested acreage which is directed at checking this undesirable diversion.

VII. Wheat

A. PARTICIPATION

There were 233,004 wheat ARP agreements executed in 1957 covering 12.8 million acres, with maximum compensation of $230.9 million. Acreagewise, wheat program amounted to 38 percent of total ARP and 23.2 percent of national wheat allotment.

1. Durum Wheat Act of 1957

The 1957 act allowed 1 additional acre of durum (up to 60 acres) for each acre of durum planted within original allotment. Field trips in Montana disclosed that changes in law and Department instructions have prevented recurrence of abuses described in 1956 report.

B. COMPARISON ARP COMPENSATION WITH PRODUCTION

Thirty-six States participated in wheat ARP obligating $230.9 million in program. 1957 production of wheat in these States was 936.9 million bushels, reduction of approximately 62 million from last year and almost 200 million bushels below 1946–55 average.

Kansas obligated $78.9 million in ARP funds and its production in 1957 dropped approximately 43 million bushels from 1956. Illinois, which obligated only $859,000, had a drop in production of 24 million bushels from 1956. Although North Dakota obligated $21 million in wheat ARP, its 1957 production of 118 million bushels was almost identical with 1956 and the 1946–55 average.

Total wheat produced in 1957 was 947 million bushels, 6 percent lower than 1956 and 16 percent below 1946–55 average; 1957 yield per harvested acre of 21.7 bushels was new record.

Winter wheat crop of 707 million was third lowest since 1942 and, according to Crop Reporting Board, showed reduced acreage resulting from ARP, although drought and unfavorable weather were also factors. Other spring wheat production of 200 million bushels was down from previous years; 1957 durum wheat crop of 40 million bushels was slightly higher than 1956 and one-third above average.

C. COLORADO

1. Participation

Colorado 1 of the largest participants in wheat program with 7,436 agreements placing 1.3 million acres, or 47.3 percent, of State's allotment in ARP for maximum compensation of $22.1 million.

2. Production

Colorado wheat production for 1957 of 33.9 million bushels was approximately double 1956 production, a serious drought year. The 1957 production was substantially less than the 10-year average. County participation in ARP ranged from low of 3 percent to high of 95 percent of allotment. Heaviest participation in 6 counties in southeastern and eastern central sections of the State which was severely drought-stricken during last several years. Federal Crop Insurance Corporation (FCIC) canceled its insurance program in three of these counties on January 9, 1956.

3. ARP wheat yields

1957 ARP wheat yields utilized in establishing ARP county rates generally the same as those used in 1956. These yields, based on 10-year period 1945–54, adjusted for weather and trend, are same as those developed for marketing-quota purposes. In six drought-stricken Colorado counties 1957 ARP yields bear no relation to actual yield historically experienced. In all cases, ARP yield exceeded total yield per acre planted for the preceding 3 or 4 years.

4. Large payments

(*a*) *Baughman Farm interests.*—Payments totaling $346,546 made under 1957 ARP to John W. Baughman Farms Co. and other related Baughman interests. These firms own vast acreages in Colorado and Kansas which are farmed by tenants on share basis. In six counties in Colorado 337 producers on Baughman land placed 73,929 acres (87 percent) of their entire allotment in ARP. Payments on these agreements totaled $1,114,152, of which $792,891 went to the tenants and $321,261 to Baughman interests. In Kansas, Baughman interests received $25,285 for their share on 4,446,5 acres placed in ARP.

(*b*) *Garvey Farms and family interests.*—ARP payments totaling $318.734 were made to Garvey Farms and family interests in 1957. These interests also own vast amounts of land in Colorado and Kansas. Garveys operate their farms with hired help and thus receive full ARP payment on land owned by them. In Colorado, Garveys placed 18,608 acres (88 perçent) of their allotment in ARP receiving $196,972. In Kansas the firm and family received $121,762 for placing 6,026 acres in ARP. Colorado Agricultural Stabilization and Conservation (ASC) officials stated sustained drought was the cause of heavy

participation in ARP. One stated that the main emphasis from Washington was on dollars expended rather than on production purchased. ASC personnel in Kansas also attribute heavy participation to drought.

D. KANSAS

1. Participation

In Kansas there were 37,270 ARP wheat agreements covering 4.2 million acres, or 40 percent of State allotment. Maximum payments totaled $78.9 million, or 34 percent of the $230.9 million obligated nationally for wheat.

2. Production and planted acreage—wheat

1957 production of wheat was 100.1 million bushels, 30 percent below 1956 production and 49 percent below 10-year average. Sustained dry weather through February and too much rain at harvest time adversely affected production. Planted acreage in 1957 was 7.2 million acres, 34 percent less than 1956.

ASC personnel in 3 counties with total participation of 203,194 acres attributed heavy participation to drought. That drought would have affected participation is evidenced by the fact that 79 counties had been designated disaster areas by fall of 1956.

Paradoxically, in Thomas County, because of rainfall 1 producer could afford to cancel a $10,547 agreement and pay a civil penalty of $5,273. In Seward County a producer delayed signing an amended agreement doubling the acreage placed in the ARP until 9 days after final sign-up date. ASC personnel felt this producer gambled on heavy rain which did not occur. ASC personnel expressed opinion that participation in 1958 would be low because of good rainfall in 1957. Also, they stated ARP payment based on normal yield is unrealistic because producers can participate in ARP and obtain payment based on normal yield when prospects are poor but will not participate when prospects are good.

3. Diversion

While Kansas wheat production in 1957 was 30 percent lower than 1956, sorghum production in 1957 was 430 percent greater than 1956. ASC official stated ARP did not reduce total production of grain because producers were planting twice the normal acreage of sorghums, maize, and milo, all of which are competitive as animal feed. Indicative of increased production of nonallotted crops is the fact that in Thomas County milo production will be greatest in history.

VIII. Corn

A. PARTICIPATION

Three hundred twenty-three thousand six hundred and eighty-six corn ARP agreements were executed in 1957, covering 5.2 million acres with maximum compensation of $196.4 million. Acreage involved represented approximately 14 percent of national corn allotment.

1. Corn base acreage

Pursuant to Soil Bank Act, referendum was held in December 1956 to determine if two-thirds of the producers favored the 51 million acre corn base for 1957 and subsequent years. Less than two-thirds of producers voted in favor of this corn base; therefore, national allotment of 37.3 million acres became effective for 1957. Had the corn-base vote carried, the acreage in compliance would have been at least 43 million acres, costing $300 million, whereas under the national-allotment program only 32.1 million acres were in compliance with an expenditure of $196.4 million.

2. National corn rate (90 cents per bushel)

National rates of payment under acreage-reserve program designed to offset producers' loss of net income for retiring acreage from production through soil bank. These payments make up the difference between out-of-pocket production costs and sales price. In 1956 national average support price for corn was $1.50 per bushel and national corn acreage-reserve program rate for year was 90 cents per bushel. The 1957 national average support price for corn was originally $1.36 per bushel and subsequently increased to $1.40 per bushel. In 1957, national average acreage-reserve program rate of 90 cents per bushel was retained. Based on 1957 support rate of $1.40 per bushel and utilizing same

theories as in 1956, as equitable average rate would have been 84 cents per bushel. Difference of 6 cents per bushel, when multiplied by the theoretical production purchased through the 1957 acreage-reserve program, would have saved $13,094,525.

B. COMPARISON ACREAGE-RESERVE PROGRAM COMPENSATION WITH PRODUCTION

Twenty-four States participated in corn acreage-reserve program obligating $196.4 million. 1957 production of corn in these States was 3.16 billion bushels, compared to 3.24 billion bushels in 1956 and 2.91 billion bushels for 10-year average, 1946–55. Total national production of 3.4 billion bushels was 2 percent below last year's record production and 9 percent above the average for previous 10 years. While acreage trend for corn has been downward for over a decade, yields have increased sharply in response to heavy use of fertilizer and other improved agricultural practices. In 1957, the new record yield of 46.8 bushels per harvested acre exceeded the previous record of 45.7 bushels in 1956 and was far above the 10-year average of 37.8 bushels.

C. NONCOMPLIANCE IN CORN PROGRAMS

Although national corn allotment of 37.3 million acres was established in 1957 and 5.23 million acres of this allotment were placed in the acreage-reserve program, total estimated harvested acreage of corn amounted to 72.7 million acres. This is approximately 3 million acres less than in 1956 and approximately 10 million acres less than the 10-year average, 1946–55. Of the total harvested acreage in corn, 65.03 million acres were grown in the 24 acreage-reserve program States which had a net allotment of 32.06 million acres. Iowa harvested approximately 4 million acres more than its net allotment. Nebraska harvested acreage was almost twice its net allotment; Alabama and Georgia harvested approximately 7 times their original allotment, and North Dakota 18 times its original allotment.

Under 1957 programs producers with multiple independent units could place one farm in acreage-reserve program and on other farm units compensate for this reduction by overplanting an equivalent amount or more on such units. For the second successive year a noncompliance rate was established. In 1957 rate was $1.10 per bushel, or but 30 cents less than the support rate for complying producers.

D. IOWA

1. Participation

Iowa producers executed 37,271 corn acreage-reserve program agreements covering 767,514 acres for maximum compensation of $34.2 million. Corn acreage placed in acreage-reserve program in 1957 was approximately 11.3 percent of State's total corn allotment. ASC officials in Iowa attribute small degree of participation to the impact of the small national corn allotments of 37.3 million acres.

2. Production

Iowa's 1957 production was estimated at 615.2 million bushels, a record high for the State, in comparison with 533.6 million bushels in the drought year of 1956 and 544.6 million bushels for 10-year average, 1946–55. Production of soybeans and sorghums in 1957 considerably higher than in prior years as a result of increased yields and increased acreage for these commodities.

E. NEBRASKA

1. Participation

Nebraska's producers executed 45,220 corn acreage-reserve program agreements, covering 1.2 million acres of land, with maximum compensation of $32.7 million. This acreage was approximately 28.8 percent of Nebraska's total corn allotment. Heavy participation resulted from continued drought in State at the time the program was initiated.

2. Production

Nebraska's 1957 corn production estimate of 223.3 million bushels was approximately double the heavy drought year of 1956 and slightly higher than previous 10-year average. Sorghum production in 1957 approximately 6 times last year and approximately 18 times greater than prior 10-year average. Review of acreage-reserve program operations in Iowa and Nebraska shows that the 2 States

executed agreements totaling $67 million in corn acreage-reserve program funds, more than one-third of the total funds obligated under the program. Corn production in these 2 States in 1957 was approximately 187 million bushels in excess of last year and approximately 85 million bushels in excess of 10-year average production, 1946–55.

IX. Upland Cotton

A. PARTICIPATION

There were 301,053 upland cotton agreements in 1957 acreage reserve program, covering 3 million acres with maximum compensation of $153.3 million. Acreage involved represented 17.15 percent of total national upland cotton allotment.

B. COMPARISON ACREAGE RESERVE PROGRAM COMPENSATION WITH PRODUCTION

Twenty-one States participated in the program. The largest participants were Texas and Mississippi, and the smallest were Kansas and Maryland. The 1957 production of upland cotton was 10.9 million bales compared to 13.3 million bales in 1956 and 13.6 million bales for 10-year average, 1946–55. Upland cotton production estimate of December 1957 was 13.4 percent below September estimate. Unfavorable weather in fall of 1957 appears to be one of the principal reasons for substantial decline in cotton production.

C. FINDINGS BY STATES

Staff visited six States during its survey, reviewing operations of upland cotton acreage reserve program. Participation of these States amounted to $80.8 million, or 52.6 percent of entire program.

1. Nevada

(*a*) *Participation and production.*—Seven producers placed 1,104 acres in program, calling for maximum compensation of $76,037, with average agreement of $10,862. Nevada's 1957 upland cotton production was 3,000 bales compared with 2,300 bales for previous year and 1,000 bales for 10-year average, 1946–55.

(*b*) *Title III, Agricultural Act of 1956.*—Title III of statute which established soil bank provided for increasing cotton allotments above prior year. Nevada's allotment was increased by 1,000 acres. By retiring 1,104 acres, producers received $76,037. When compared with 1956, the net reduction in productive acreage was only 104 acres.

2. Arizona

(*a*) *Participation.*—There were 1,004 upland cotton 1957 acreage reserve program agreements, placing in reserve 45,067 acres and calling for compensation of $6.2 million. The average payment was $6,188. Acreage involved represented 12.5 percent of Arizona's allotment.

(*b*) *Production.*—Arizona's 1957 upland cotton is estimated at 755,000 bales, compared to 802,400 in 1956 and 601,600 bales for the 10-year average, 1946–55.

(*c*) *Pinal County*—(1) *Former administration of ASC programs.*—Compliance and Investigations Division of Commodity Stabilization Service (CSS) conducted investigation into the administration of programs by Pinal County ASC office. Facts developed resulted in United States grand jury returning indictments charging 4 officials and employees of county ASC office, as well as four producers, with fraud and bribery. Cases still pending prosecution in the United States district court.

(2) *Large contracts.*—Six contracts executed in the county totaled approximately $546,000, or 20 percent of the total program in the county. ASC official states that, while acreage reserve program funds purchased production, motivating factor for large producer participation was desire to rearrange and level the land, which they could not have afforded to do without program. Official states this land improvement will be reflected in increased cotton production in 1958.

(3) *Casa Grande Valley Country Club.*—In September 1957 the staff learned that club received a cotton allotment and had placed land in the 1957 acreage reserve program.

Staff inquiry showed that in February 1957 pursuant to instructions from CSS, Washington, the club's cotton allotment was canceled since no cotton

had been planted on the land in period 1954 through 1956. In April 1957 this action rescinded by Arizona State office and country club given allotment of 22.5 acres, which it placed in the cotton acreage-reserve program. Agreement called for compensation of $2,362.50. In October 1957, CSS, Washington, instructed State ASC office to cancel allotment and soil-bank agreement. This was done and no acreage-reserve program payment was made.

(*d*) *Large payments, Pima County.*—Three acreage-reserve program contracts executed in Pima County in excess of $50,000.

(1) *Harris Ranches, Inc., Jack Harris, president.*—Two contracts executed in Pima County by Harris Ranches, Inc., Jack Harris, president, totaling $214,983.80. Combined payment was the largest made under the cotton acreage-reserve program. Although Harris placed 1,704 acres in the acreage-reserve program in Pima County, another firm of which he was president planted 4,639.5 acres of penalty cotton in Maricopa County.

Although 1957 acreage-reserve program regulation states: "No producer entering into an agreement with the Secretary hereunder shall employ any scheme or device which would tend to defeat the purpose of the agreement," interpretation by the Department indicated that nothing could be done to prevent such a paradox providing the two farms were separate and distinct units under CSS definition of a farm. Marketing-quota penalties of $965,595.94 were levied against Harris' firm and were paid.

Soil Bank Division issued 1958 acreage-reserve regulations stating that it shall be considered a scheme or device to defeat the purpose of an acreage-reserve program agreement for a producer who has an agreement for a commodity on one farm to exceed the allotment for the commodity on another farm if he exceeds substantially the acreage normally devoted to the commodity on such farm.

(*e*) *Maricopa County.*—Six large producers in Maricopa County executed acreage-reserve program contracts calling for payments totaling $433,667, or 19.5 percent of the total county participation. ASC official states no question that acreage-reserve program dollars purchased an equivalent amount of cotton production; also, that participation was based on opportunity for producers to rebuild their land, as well as giving some an opportunity to plant this acreage in the fall of 1957 with crops that would not be harvested until 1958.

3. Arkansas

(*a*) *Participation.*—There were 18,888 acreage reserve program agreements executed, placing 187,755 acres in the 1957 acreage reserve program, calling for maximum compensation of $10.5 million. Acreage represented 13.3 percent of total State allotment. Greatest participation was from farms with allotments of 15 acres or less because these producers could readily participate in program and seek off-farm employment.

(*b*) *Production.*—Arkansas' upland cotton production estimated as of December 1, 1957, to be 985,000 bales, a drop of 441,000 bales as compared with previous year and 459,000 bales below 1946–55 average. Unfavorable weather in last quarter of year appears to be one reason for substantial drop in production as compared with previous estimates.

4. California

(*a*) *Participation.*—There were 3,668 upland cotton acreage reserve program agreements executed, placing 74,087 acres in the program, calling for compensation of $7.5 million. Acreage represented 9 percent of California's upland cotton allotment.

(*b*) *Production.*—California's upland cotton production for 1957 estimated to be 1,499,500 bales, an increase of 3.7 percent over prior year and 20.1 percent over the 10-year average.

(*c*) *Large producers.*—As in Arizona, large producers dominated participation. In Fresno County, where participation amounted to approximately $2.5 million, 10 agreements amounted to approximately 20 percent of entire participation in county. ASC personnel in Fresno and Kern Counties state acreage reserve program dollars purchased cotton production.

(*d*) *Interplanting.*—Investigation shows certain California producers placed land in 1957 acreage reserve program although such land had young fruit trees and vineyards planted thereon. This was permitted under 1957 acreage reserve program regulations. However, due to complaints received by Department that this type of participation was unfairly subsidizing new fruit groves and vineyards, soil bank regulations amended to prohibit this participation in 1958 acreage reserve program.

5. Mississippi

(*a*) *Participation.*—There were 34,294 cotton acreage-reserve-program agreements executed, placing 252,214 acres in the program and calling for maximum compensation of $17.2 million. Acreage represented 15.3 percent of State cotton allotment. Producers with cotton allotments of 10 acres or less were heaviest participants in program. Relatively small participation in delta area attributed to opposition to acreage reserve program by cotton factors, associations, and lending agencies.

(*b*) *Delta region, Mississippi.*—Staff inquiries made in Mississippi Delta to determine if producers were placing land in 1957 acreage reserve program so as to increase use of limited water on remainder of land. ASC personnel stated they did not feel acreage reserve program participation by individuals in this area was due to shortage of water since there was sufficient rain in 1957.

(*c*) *Large producers.*—Largest 1957 acreage reserve program payment in State was to Mississippi State Penitentiary. Penitentiary placed 1,000 acres in acreage reserve program and received $71,000 for participation. ASC officials state participation due to desire to improve land involved.

Producer, Quitman County, executed 2 agreements totaling approximately $67,000. On 1 contract he received $16,675 for placing his cotton allotment of 177.4 acres in acreage reserve program, whereas his annual rental for entire farm was reportedly $10,835.

Producer, Grenada County, placed 172.4 acres in acreage reserve program, receiving $13,005 for participation. This payment was $9,705 in excess of annual rental for the land involved.

(*d*) *Production.*—Mississippi's upland cotton production for 1957 estimated at 1,160,000 bales, a decrease of 27.9 percent from 1956 and 31.8 percent below 10-year average. Net reduction in crop forecast between September and December 1, 1957, was 390,000 bales. Crop reports indicate that unfavorable weather commencing in September and extending through last quarter of the year was the principal reason for drop in estimates.

6. Texas

(*a*) *Participation.*—There were 56,135 cotton acreage-reserve program agreements executed, placing 1.1 million acres in the program with maximum compensation of $39.3 million. Acreage represented 14.9 percent of State's cotton allotment. ASC officials advised that participation was primarily caused by drought and good selling job done by ASC county offices.

(*b*) *Lubbock County, Tex.*—ASC personnel advised 80 percent of farms in county have some irrigation. Water table in area has begun to decrease. Rainfall in area has been less than normal in last 5 years.

Participation in 1957 cotton acreage-reserve program was only 3 percent of total county allotment. ASC personnel believed some producers participated in acreage-reserve program because of shortage of water or to use short water on other land, but that general participation was not due to shortage of water.

(*c*) *Large producer reaction.*—Investigation reflected 43 acreage-reserve program cotton agreements executed in the State averaging $44,653.19. Of 23 producers interviewed 9 stated reason for heavy participation was lack of water supply and drought, 5 producers indicated participation based on desire to reduce cotton surplus, and 3 stated it was based on opportunity to improve and rest land. Other reasons stated were labor shortage, desire to conserve land for future use, and closing of spread between cost and selling price of cotton.

(*d*) *Production.*—Texas production of upland cotton for 1957 estimated to be 3.55 million bales which is 48,000 bales below 1956 and approximately 180,000 bales below 1946–55 average. Cotton production estimates dropped sharply in November and December reports as result of unfavorable weather commencing in late October.

X. Rice

A. PARTICIPATION

In 12 States, rice producers executed 4,825 acreage-reserve program agreements placing 242,017 acres in reserve, calling for maximum compensation of $15.5 million. The acreage represented 14.7 percent of the national allotment. This participation amounted to an oversubscription of the initial allocation by $1.5 million.

B. COMPARISON ACREAGE-RESERVE PROGRAM COMPENSATION WITH PRODUCTION

Rice production for 1957 estimated at 43.1 million hundredweight bags, as compared with 49.5 million in 1956 and 45.6 million for the avergae 1946–55. The record yield for 1957 is estimated at 3,219 pounds an acre, slightly above 1956 and nearly 900 pounds above the average 1946–55. According to the Crop Reporting Board, 1957 production is the smallest since 1950 and was primarily due to acreage-reserve program. Production in some areas was affected by wet weather and hurricane.

1. Arkansas

(*a*) *Participation.*—Arkansas producers in 1957 executed 1.762 acreage-reserve program rice agreements placing 13.3 percent of the State allotment in reserve for compensation of $3.3 million. State ASC officials advised the program was more attractive to small producers, because large farms are mechanized. Generally, large producers who participated used the program as an opportunity to clean up their riceland.

State Penal Institution executed an acreage-reserve program rice agreement placing 400 acres in reserve for compensation of $22,800. The city of DeWitt had been leasing a 120-acre farm over a period of years for $1,604 per year. In 1957, by placing the entire rice allotment of 44 acres in acreage-reserve program, city received compensation of $2,640

(*b*) *Production.*—1957 rice production for the State estimated at 11 million hundredweight bags, 10 percent below 1956 and about 10 percent above 10-year average.

2. California

(*a*) *Participation.*—In 1957 there were 849 acreage-reserve program rice agreements executed placing 63,879 acres in the program, calling for maximum compensation of $4.7 million. The acreage represented 21.3 percent of the State allotment. Heaviest participation was in Sutter County where there were 620 agreements placing 9,682 acres in reserve with compensation of $737,380. County ASC officials stated participation gave producers an opportunity to rebuild the land.

(*b*) *Production.*—Estimated production for 1957 is 9.3 million hundredweight bags, substantially below the 1956 production and slightly below the 10-year average.

3. Mississippi

(*a*) *Participation.*—In 1957 producers executed 134 acreage-reserve program rice agreements placing 12,788 acres in the program with maximum compensation of $770,868. This acreage represented 27.4 percent of total State allotment. Bolivar and Washington Counties were the heaviest participants. This participation enabled producers to clean up riceland and still receive some compensation. County average base rates ranged from $24 to $63 per acre.

(*b*) *Production.*—The estimated 1957 production for the State is 992,000 hundredweight bags, about 20.9 percent below 1956 but slightly above the 10-year average.

4. Texas

(*a*) *Participation.*—There were 677 rice acreage-reserve program agreements executed, placing 67,440 acres in the program with maximum compensation of $4.2 million. This acreage was 16 percent of the State allotment. According to a State ASC official the program was more attractive to large producers because it permitted them to place part of their acreage in reserve for insured income and gamble with the rest of their acerage.

(*b*) *Production.*—The estimated 1957 production for the State is 11.1 million hundredweight bags, 5 percent below 1956 and 11.1 percent below the 10-year average.

XI. Tobacco

A. PARTICIPATION

There were 51,828 tobacco acreage-reserve program contracts executed in 1957, placing 79,701 acres in the program with maximum compensation of $17.8 million. This acreage represented 6.8 percent of the total national allotment and the compensation represented 52.3 percent of the original tobacco allocation. The largest participant was North Carolina with $6.1 million.

B. COMPARISON, ACREAGE RESERVE PROGRAM PARTICIPATION WITH PRODUCTION

The 1957 production for types covered by acreage-reserve programs estimated at 16.2 billion pounds, as compared with 21.1 billion in 1956 and 20.8 billion pounds for the 10-year average, 1946–55. Yields were generally lower in 1957 over 1956, but considerably higher than the 10-year average. The Crop Reporting Board attributes decrease in production to soil-bank program and reduction of allotments.

C. FINDINGS BY STATES

Connecticut, Massachusetts, and North Carolina accounted for 48.9 percent of the national participation.

1. Connecticut

Producers in Connecticut executed 1,133 acreage-reserve program tobacco agreements in 1957 placing 57.7 percent of the State's allotment for types 51 and 52 tobacco in the program for maximum compensation of $1.6 million. A new cigar binder process which cut binder tobacco requirements approximately 50 percent stimulated heavy participation. Largest acreage-reserve program payment in State was $32,595.28.

An owner of a 100-acre farm in 1956 rented the farm for $10,000. In 1957 he placed 50 percent of his tobacco allotment, or 39.81 acres, in acreage reserve program, receiving $12,578.77. Thereafter he rented the remaining 60 acres at $50 to $100 an acre.

2. Massachusetts

Producers in the State executed 869 tobacco acreage reserve program agreements in 1957, placing 2,894 acres of types 51 and 52 in the program, for maximum compensation of $964,847.50. As in Connecticut, heavy participation was attributed to the new manufacturing binder process.

3. North Carolina

North Carolina producers executed 14,959 tobacco acreage reserve program agreements in 1957, placing 5.5 and 4.2 percent of the flue-cured and burley State allotments, respectively, in the program. Total maximum compensation for these agreements was $6.1 million. ASC officials attributed the light participation to the disparity between acreage reserve program rate and the market price, small allotments, desire to perpetuate agreements with qualified tenants, and the reluctance of owners to share payments with tenants in same ratio as production. They stated the reasons for the participation in the acreage reserve program were: Assistance program offered to part-time farmers, desire to reduce surplus, shortage of labor, and the need for rebuilding the land.

XII. Economic Impact of Acreage Reserve Program

Staff interviewed ASC personnel, agricultural equipment manufacturers and dealers, banks, etc., in 10 States regarding the economic impact of taking acreage out of production. They indicate little factual data available. Inquiry disclosed that drought, flood, diversified farming practices, and intensified farming which affect production also have economic impact on farming communities.

Opinions expressed that in drought areas soil bank has beneficial effect on the farmer and probably also on general community. In areas where weather conditions tend to be more normal or in irrigated areas participation in soil bank probably has adverse effect upon local community because less money is put in circulation. Impact would vary from one community to another and would be greatest in community in which agriculture is dominant factor in economy. Diversion to other crops lessens overall economic impact because by substituting one crop for another the demand for labor, equipment, and other services is not decreased proportionately to acreage reduction under price-support and soil-bank programs.

XIII. Government-Leased Land in 1957 Acreage Reserve Program

A. GENERAL

Staff previously reported that four producers who leased Government land in Kansas placed portions of this land in 1957 acreage reserve program and received more compensation than they paid the Government in annual rent. Since no information available at Washington level on extent of this practice, staff visited 12 States to determine if such participation was commonplace.

B. FINDINGS BY STATES

1. Nebraska

Naval ammunition depot leases out a total of 46,271 acres at annual rental of $279,045. It has wheat and corn allotments of 10,581 and 1,994 acres, respectively. Depot representative placed 3,525 winter wheat acres in acreage reserve program for compensation of $74,906 which was prorated to 14 firms or individuals whose payments ranged from $599 to $23,371. Also placed 245 corn acres in acreage reserve program for compensation of $5,880 which was prorated to 5 firms or individuals with payments ranging from $717 to $1,682. Affiliate of firm receiving $23,371 payment also received $27,716 in another county for placing other Government-owned land in acreage reserve program.

At Cornhusker Ordnance Plant, partnership executed two contracts placing 192.6 acres Government-leased land in acreage reserve program. In 1 instance 150 acres rented for $5.31 per acre was placed in acreage reserve program at rate of $15 an acre. In other instance acreage reserve program rate was $24 an acre and rental rate $6.41 an acre.

Twenty acres of land leased by Nebraska Ordnance Plant to Foundation Seed Division, College of Agriculture, Lincoln, Nebr., on rent-free basis placed in acreage reserve program at rate of $34 an acre for total payment of $680. Eleven additional instances cited of Nebraska ordnance land placed in acreage reserve program. Rental charges range from $4 to $18.55 an acre and acreage reserve program rate $33 to $35 an acre. In nine instances producers received more for placing portion of Government-leased land in soil bank than they paid in rent for entire tract.

2. Arkansas

Three instances noted where producers received several times the annual rental cost for placing a fraction of the Government-leased land in acreage reserve program.

3. Colorado

Instance noted where producer leased 610 acres at $5.54 an acre and placed 18 acres in acreage reserve program at $22.23 an acre.

4. Mississippi

Six cases noted where producers received several times the annual rental for placing a portion of Government-leased land in acreage reserve program.

5. Oklahoma

Several examples cited where producers' payments for placing a portion of their Government-leased land in Lake Texoma region in acreage reserve program greatly exceeded their annual rental. In every case acreage reserve program rate per acre was higher than annual rental rate for Government-leased land. In some instances low rental said to be based on fact that price-supported commodities may not be grown. Despite this, land had allotments and was placed in acreage-reserve program.

6. Pennsylvania

Lessee at Susquehanna Ordnance Plant received approximately 10 times the annual rental for placing a portion of Government-leased land in acreage reserve program.

7. Texas

One instance cited where a producer in Lake Texoma region received approximately three times the annual rental for placing a portion of Government-leased land in acreage reserve program. In addition, ASC office, Denton County, furnished information indicating 23 acreage reserve program agreements signed and approved placing 313 acres of land in cotton acreage reserve program calling for compensation of $7,554. Acreage reserve program payment rate ranged from $19 to $27 an acre, whereas rental ranged from $1.25 to $3 an acre. Indications are that leases are restrictive in nature and no payments are made on agreements until Department complete survey of matter.

8. Other States

Inquiries in Kansas, Illinois, Montana, South Dakota, and California negative relative to Government-leased land in acreage-reserve program.

XIV. Large Payments, National Acreage Reserve Program

CSS furnished preliminary list reflecting 67 producers received acreage-reserve program payments in excess of $50,000. These payments, which covered wheat, cotton, and rice, totaled $5,313,795 and averaged $79,310. No corn or tobacco producers in $50,000 class. Of the 67 payments, 47 made in Arizona, California, and Texas.

Appendix

I. Directive

On March 29, 1957, the staff submitted a report setting forth the results of its survey of the soil-bank program for the year 1956.

On July 5, 1957, the Committee on Appropriations directed the staff to continue the study of the soil-bank program with special attention to the 1957 crop-year programs. Prior to the issuance of the directive, the staff had been requested:

1. To conduct a survey on a selective basis relative to Government-leased land being placed in the 1957 acreage-reserve program (ARP).

2. To determine the economic impact of acreage reduction programs on business activities in local towns and communities.

3. To ascertain the extent that producers were placing land in the acreage reserve to use the limited or expensive water on the balance of the land. The areas specified were the irrigation areas of the Mississippi Delta and Lubbock, Tex.

4. To ascertain the circumstances under which Jack Harris, of Tucson, Ariz., received $209,000 for placing 1,666 acres of cotton-land in the soil bank and then planting 4,500 acres of penalty cotton on another farm.

5. To determine methods used by producers to avoid the $5,000 limit on conservation-reserve program (CRP) payments, with special emphasis on the establishment of trusts or other divisions of title among partners or family members to avoid the limitation.

6. To determine the relationship between CRP annnual payments and estimated value of the land.

II. Scope

During the survey of the 1957 soil-bank program emphasis was placed on the cotton and wheat ARP because of the prominence of these two programs and because the staff had emphasized the corn ARP during its previous survey of the 1956 soil-bank program.

The scope of this survey included interviews with officials of various branches of the United States Department of Agriculture (USDA) including officials of the Soil Bank Division and Grain Division of the Commodity Stabilization Service (CSS), the Federal Crop Insurance Corporation, the Crop Reporting Board, and the Agricultural Marketing Service. In addition pertinent records of these branches were reviewed. With respect to Government-leased land placed in the ARP, the staff found it was necessary to interview officials and review records of the Department of Defense.

The survey at the field level entailed interviews with State and county agricultural stabilization and conservation (ASC) officials of 19 States and a review of their files. The study also included inter-

views with producers and various business representatives to determine the economic impact of the soil-bank program.

III. Acreage Reduction Programs

The United States Department of Agriculture production adjustment programs for basic commodities are aimed at bringing supplies of these commodities into line with national needs through a curtailment of crop acreage.

Under them the United States Department of Agriculture determines the amount of national acreage allotment according to a formula prescribed by law. In general, the national acreage allotment is considered the acreage adequate, together with carryover, to produce a crop sufficient for our domestic, export, and reserve needs. This national acreage allotment is apportioned among the individual eligible States for reapportionment to eligible farms.

Acreage allotments with marketing quotas may be established only for upland and extra-long staple cotton, wheat, rice, and tobacco. Corn is not subject to marketing quotas or the penalties relating to them. Although corn enjoys an advantage in this respect, it does not have the advantage of legislation providing for minimum national allotments.

It is pointed out that, pursuant to the provisions of the Agricultural Act of 1956, producers, in a referendum on December 11, 1956, voted against the 51 million corn-base acreage which was established for 1956. Since the vote did not favor a continuation of this base acreage, the basis for participation in the Government's price support program and soil-bank program was the 37.3 million acre corn allotment established by formula.

For cotton, wheat, and rice the law provides a minimum national allotment. A comparison of the 1957 statutory minimum allotment for these 3 commodities with the number of acres which the supply formula indicated should have been planted is set forth below:

[Acres]

Commodity	1957 statutory minimum allotment	Allotment per supply formula
Wheat	55,000,000	12,371,795
Upland cotton	17,585,463	3,869,072
Rice	1,652,596	1,197,802

There was no statutory minimum allotment for tobacco and, in 1957, the acreage allotted to all types of tobacco was 1,171,489.94 acres.

IV. Soil-Bank Programs

A. SOIL BANK ACT

The Soil Bank Act (title 1 of the Agricultural Act of 1956, Public Law 540, approved May 28, 1956) authorized programs to assist farmers to remove a portion of their cropland from the production of agricultural commodities in surplus supply and to carry out a

program of soil, water, forest, or wildlife conservation. These activities are supplementary to acreage allotments and marketing quota programs authorized under the Agricultural Adjustment Act of 1938, as amended, and, together with these programs, constitute a program to prevent excessive supplies of agricultural commodities from burdening and obstructing interstate and foreign commerce.

The two major programs under the Soil Bank Act are:

1. The ARP, which is effective for the crop years from 1956 through 1959.

2. The CRP, which is effective for the 5 calendar years from 1956 through 1960.

The Soil Bank Act, as passed in 1956, authorized maximum expenditures of $750 million for ARP and $450 million for CRP. However, the 85th Congress amended the act to restrict payments for ARP to $500 million and CRP to $325 million, both reductions to become effective for the 1958 programs.

The Soil Bank Act is administered through the Soil Bank Division of the CSS, which utilizes the services of the ASC State and county committees. The program provisions and operating policy relating to conservation practices under the CRP are developed by the Agricultural Conservation Program Service with the assistance of the Forest Service, Soil Conservation Service, and the CSS.

B. SOIL BANK PARTICIPATION BY STATES

There is set out below a schedule showing soil bank participation by States. This schedule covers the 914,396 agreements executed under the 1957 ARP and the 82,588 CRP agreements which were in effect during 1957. It shows that approximately 27.9 million acres were in the 1957 soil bank, for an estimated expenditure of $717 million.

It will be noted that, according to the soil bank agreements, Kansas was the largest participant and will receive approximately $88.6 million for placing 4.7 million acres in the program. Texas was second and will receive approximately $82.1 million for retiring 3.9 million acres, while Nebraska was third and will receive approximately $45.8 million for placing 1.8 million acres in the soil bank.

The three smallest States were Rhode Island, which had no participation, and New Hampshire and Vermont, which participated to the extent of $10,000 and $43,000, respectively.

1957 soil bank program

State	Acreage reserve program [1]		Conservation reserve program [2]		Total	
	Number of acres	Maximum compensation	Number of acres	Estimated payments	Number of acres	Estimated payments
		Thousands of dollars		*Thousands of dollars*		*Thousands of dollars*
Alabama	323,995	16,931	58,740	1,096	382,735	18,027
Arizona	45,067	6,212	7,287	169	52,354	6,381
Arkansas	251,829	14,020	61,526	1,198	313,355	15,218
California	259,547	15,045	27,996	411	287,543	15,456
Colorado	1,320,439	22,220	479,929	5,020	1,800,368	27,240
Connecticut	4,986	1,616	72	3	5,058	1,619
Delaware	21,097	917	1,053	32	22,150	949
Florida	19,257	1,566	62,232	963	81,489	2,529
Georgia	382,148	19,227	224,689	3,919	606,837	23,146
Idaho	185,283	4,921	46,486	580	231,769	5,501
Illinois	431,722	19,410	11,367	411	443,089	19,821
Indiana	420,453	18,782	23,587	591	444,040	19,373
Iowa	774,858	34,388	50,715	1,136	825,573	35,524
Kansas	4,478,966	84,860	213,487	3,752	4,692,453	88,612
Kentucky	249,447	9,658	20,816	653	270,263	10,311
Louisiana	165,931	10,903	19,469	233	185,400	11,136
Maine			36,358	706	36,358	706
Maryland	43,046	2,278	12,087	287	55,133	2,565
Massachusetts	2,895	965	233	7	3,128	972
Michigan	310,137	12,280	115,029	1,781	425,166	14,061
Minnesota	376,909	12,084	563,474	8,289	940,383	20,373
Mississippi	265,002	17,979	48,970	1,047	313,972	19,026
Missouri	683,523	24,422	69,814	3,234	753,337	27,656
Montana	478,882	8,816	79,915	1,077	558,797	9,893
Nebraska	1,697,574	44,291	109,213	1,555	1,806,787	45,846
Nevada	1,104	76	13	[3]	1,117	76
New Hampshire	1	[3]	513	10	514	10
New Jersey	29,267	1,376	5,512	134	34,779	1,510
New Mexico	161,664	2,462	660,263	7,041	821,927	9,503
New York	93,558	3,417	80,322	2,091	173,886	5,508
North Carolina	298,731	17,843	28,116	702	326,847	18,545
North Dakota	1,334,522	21,217	484,222	7,339	1,818,744	28,556
Ohio	440,910	19,472	39,897	890	480,807	20,362
Oklahoma	1,289,558	22,356	374,560	4,881	1,664,118	27,237
Oregon	113,028	3,204	42,139	1,023	155,167	4,227
Pennsylvania	96,224	3,861	37,663	616	133,887	4,477
Rhode Island						
South Carolina	244,252	13,722	102,752	1,798	347,004	15,520
South Dakota	969,737	15,868	412,354	6,764	1,382,091	22,632
Tennessee	199,463	8,765	39,142	1,336	238,605	10,101
Texas	2,309,314	56,241	1,628,977	25,868	3,938,291	82,109
Utah	97,240	1,874	75,220	1,181	172,460	3,055
Vermont	6	2	2,460	41	2,466	43
Virginia	58,258	3,262	6,750	141	65,008	3,403
Washington	221,410	6,455	16,109	340	237,519	6,795
West Virginia	6,713	265	1,009	15	7,722	280
Wisconsin	155,294	7,620	123,390	2,387	278,684	10,007
Wyoming	40,771	690	32,005	379	72,776	1,069
Total	21,354,018	613,839	6,537,932	103,127	27,891,950	716,966

[1] As of May 17, 1957. [2] As of July 15, 1957. [3] Under $500.

V. Acreage Reserve Program

A. OBJECTIVE

The objective of the ARP is to curtail production of basic crops by reducing acreage below established allotments. Farmers who agree to cut their acreage below their allotments receive payments to compensate them for loss of their margin of profit on the land they put in the ARP.

Land put into the ARP may not be cropped, and it may not be grazed, except when authorized by the Secretary of USDA in emergencies. Further, farmers must comply with all farm allotments.

B. INITIATION OF PROGRAM

The 1957 ARP covered corn, wheat, cotton, rice, and tobacco. Peanuts and long-staple cotton, which were included in the 1956 ARP, were excluded from the 1957 program.

The 1957 winter wheat ARP was announced on July 6, 1956, and the deadline for signing these wheat agreements was October 5, 1956, after being extended from September 21, 1956. The program for all other commodities was announced on December 26, 1956, and a signup deadline date of March 1, 1957, was established for cotton and tobacco; and March 8, 1957, for corn, spring wheat, and rice.

C. ACREAGE RESERVE AGREEMENTS

In 1956 one agreement was used for all commodities. While two agreements were used in 1957, one for winter wheat and the other for all spring crops, the terms of these two agreements were generally similar to the terms of the 1956 agreement. Copies of the 1957 agreements are being made a part of the appendix to this report.

The 1957 agreements require the participant to identify his farm and to show his allotment and the number of acres placed in the ARP. He is also required to identify the acreage placed in the ARP, show the percentage of productivity of such acreage, and state the current use of the land.

The agreement for spring crops requires the producer to certify that the designated acreage is suitable for the production of the commodity covered by the agreement and that the information contained in the agreement or any supplement is correct to the best of his knowledge and belief.

The agreement for winter wheat requires the producer to certify that the land designated for the ARP has been planted in wheat for at least 1 year during the period 1945–56 and is suitable for the production of wheat. It does not require a certification as to the correctness of the information shown therein.

On the reverse side of the agreements are set forth the terms and conditions to which the producer agrees when he signs the agreement. Some of the more important provisions are:

1. Harvesting or grazing on land designated for ARP is prohibited.

2. Planting on land designated for the ARP after the date of the agreement is prohibited unless crop will be harvested in ensuing year.

3. Participant is required to comply with all allotments on his farm.

4. Tenants and sharecroppers' rights to participate in ARP are protected.

5. Scheme or device to defeat the purpose of the agreement is prohibited.

6. The agreements state with respect to violations:

(1) If the Secretary determines that there has been a violation of this agreement and that such violation is of such a substantial nature as to warrant termination of this agreement, the producer agrees that all rights to compensation hereunder shall be forfeited, and agrees to refund to the United States all compensation received by him or by any tenant or sharecropper hereunder.

(2) If the Secretary determines that there has been a violation of this agreement but that such violation is of such a nature as not to warrant termination of this agreement, the producer agrees to accept such adjustments in compensation, to forfeit such benefits, and to make such refunds to the United States of compensation received by him or by any tenant or sharecropper hereunder as the Secretary may determine to be appropriate.

The agreements also state with respect to civil penalties that if the producer willfully grazes or harvests any crop from the acreage reserve in violation of the agreement, he is subject to a civil penalty of 50 percent of the compensation payable for compliance with the agreement. This civil penalty is in addition to any amount required to be forfeited or refunded as indicated above.

7. The terms and conditions provide that the participant is also subject to all regulations pertaining to the program issued by USDA prior to the date of agreement.

While the participant is not required to certify that his participation will reduce production of a particular commodity, it would seem that this would be the normal result insofar as a particular farm is concerned, because the participant is required to designate specific allotted acres for the ARP and must comply with all allotments on the farm. However, when a farmer operates more than one farm, ARP participation does not necessarily result in a reduction of a particular commodity by all farms, because there is no provision for cross-compliance. The lack of cross-compliance permits a producer to place cornland of one farm in the ARP and increase his production of corn on other farms by planting out of compliance. In the case of corn there are no marketing-quota penalties for planting out of compliance. While commodities other than corn have marketing-quota penalties, the staff points out elsewhere in this report that the penalties were no deterrent to Jack Harris who participated in the cotton ARP and also planted approximately 4,600 acres of penalty cotton.

The staff has pointed out that the terms and conditions of the agreement prohibit the producer from employing "any scheme or device whatever which would tend to defeat the purpose of this agreement." It seems to this staff that, if this condition was enforced, the loophole afforded the producer by lack of cross-compliance would have been closed. However, as shown elsewhere in this report, the provision with respect to "scheme or device" was not invoked against Jack Harris.

D. CHANGES IN REGULATIONS

The 1957 regulations are contained in a 32-page booklet entitled "Soil Bank Bulletin 201 (Revised)." These regulations, together with amendments thereto, are being made a part of the appendix of this report.

A comparison of the 1956 and 1957 regulations shows that few significant changes were made in 1957 to strengthen the ARP. Those changes that were made include the following:

1. The 1957 regulations provide that holders of new farm allotments or new producers are not eligible for participation.

2. With the exception of winter wheat, land which is intended for utilization during the calendar year 1957 for industrial development, housing, etc., was not eligible for participation in the 1957 ARP.

3. For 1956, farm compensation rates were determined by multiplying the commodity normal yield determined for the farm by a unit compensation rate.

For 1957, for all crops other than wheat and tobacco, farm compensation rates were determined by establishing a productivity index for each farm for each commodity, reflecting the fertility of the cropland on the farm and the farming practices of the farm operator, as compared with the average cropland in the county for producing the commodity under normal farming practices.

The USDA, in commenting upon the establishment of the productivity index, stated it would permit the consideration of factors other than yield in establishing farm rates and recognized that for commodities other than tobacco there are no accurate records of farm production and yields. It was stated that the productivity index could not be put into effect until 1958 for wheat because there was not sufficient time to establish such an index prior to the signup date for winter wheat.

The staff notes that the factors considered in establishing the productivity index, namely, fertility of land and farming practices, are the principal factors which determine yield and, therefore, questions whether this change is a significant one.

4. The 1957 regulations provided that the number of acres on which compensation is based shall be reduced by the number of acres of new land not included in the cropland of the farm at the time the agreement was filed which is brought into cultivation and used for the production of a crop for harvest in 1957.

The staff notes that, while this new regulation strengthens the operation of the ARP, it does not preclude diversion or shifting of acres, which will be discussed later in this report.

It is significant that more important changes were made in the 1958 regulations to tighten and strengthen the operation of the ARP. These changes included:

1. In 1958, the regulations provide that a soil-bank base must be established for soil-bank-base crops. The soil-bank base represents a determination of the number of acres planted to crops designated as soil-bank-base crops in prior years. In computing the soil-bank base, summer fallow practices are taken into consideration. When a producer places acreage in the ARP, the acreage planted to all soil-bank-base crops cannot exceed the soil-bank base, less the acreage placed in the ARP.

The USDA, in commenting upon the establishment of a soil-bank base, stated:

One major problem in the acreage-reserve program has been the tendency to shift production from acreage-reserve crops to other crops which contribute to overall surpluses. The soil-bank-base provision, with its limit on total harvested crops, will help to check this undesirable diversion.

The staff points out that it is significant that, even though the CRP regulations provided for a soil-bank base in 1956, the soil Bank Division failed to establish a soil-bank base for the ARP until 1958. This is significant because, as indicated later in this report, it seemed to be obvious to ASC personnel in the field that, without a soil-bank base, participation in the ARP would cause a shifting of production to nonallotted crops, some of which are competitive with ARP crops.

2. The 1957 regulations provide:

No producer entering into an agreement with the Secretary hereunder shall employ any scheme or device which would tend to defeat the purpose of the agreement.

The 1958 regulations provide, in addition to the above, that it shall be considered a scheme or device to defeat the purpose of the agreement if a producer having an agreement for a commodity on one farm substantially exceeds the allotment for the commodity on another farm.

While the USDA considers the above change to be significant, the staff questions its significance because the word "substantially" will require individual interpretation each time this problem is presented. For this reason the staff feels that the 1957 regulation was stronger than the modified 1958 regulation.

3. The regulations provide as an incentive under the 1958 and 1959 programs that, for any tract designated in 1957 for the ARP which is also designated in the 1958 program, the payment shall be 110 percent of the rate which would otherwise be payable under the 1958 program.

4. The 1958 regulations placed a limit of $3,000 that may be made to any producer for a particular farm. This was a result of legislative action.

5. In the interests of conservation, and if the ASC Committee requires it, participants in the 1958 ARP may be required to control erosion on ARP land.

6. The 1958 regulations do not provide for withdrawing from the program after the final signup date except in some "new" commercial corn counties.

7. Another change in the 1958 regulations provides that ASC committees may not approve an ARP agreement if it is determined that reduction in acreage of a commodity would occur even in the absence of participation in ARP. This would prevent use of ARP funds in cases where land is taken out of production for some reason other than the soil-bank program.

8. In 1957 regulations for winter wheat required that the land placed in reserve must have been planted in wheat at least for 1 year in the period 1945–56, inclusive. For other commodities the land must be suitable for production of the specific commodity placed under the contract. The 1958 regulations have been changed to require all land placed in the ARP must have been planted for harvest or harvested in one of the last 5 years, 1953 to 1957. This change was made to further insure that the land placed in reserve was cropland suitable for production of a crop.

E. NATIONAL RATES OF PAYMENT

The national base unit rates for all five commodities are the same as the 1956 rates. The national rate for each acre in 1957 was the same for wheat and tobacco as in 1956, but, because higher yields were established, the rates for each acre of cotton, corn, and rice were higher than in the previous year. A schedule reflecting a comparison of the national normal yields and rates for 1956 and for 1957 is as follows:

Crop	Unit	1956 yield per acre	1957 yield per acre	1956–57 base rate per unit	1956 rate per acre	1957 rate per acre
Wheat	Bushel	16.7	16.7	$1.20	$20.04	$20.04
Cotton	Pound	309	361	.15	46.35	54.15
Corn	Bushel	44.5	47.4	.90	40.05	42.66
Rice	Hundredweight	26.3	28.08	2.25	59.18	63.18
Tobacco	Pound	1,440	1,440	.176	253.44	253.44

It will be noted that an average rate is set forth for tobacco which represents the combined rates for the several different types of tobacco covered in the program for the 2 years. The detail relative to each type will be set forth in the tobacco section of this report.

F. 1957 ARP GOALS

The following table shows national acreage-reserve goals established for the five commodities:

Commodity	*1957 reserve acre goals*
Wheat	12,000,000–15,000,000
Corn	4,500,000– 5,500,000
Cotton	3,500,000– 4,500,000
Rice	175,000– 225,000
Tobacco	125,000– 140,000
Total	20,300,000–25,365,000

G. ALLOCATION OF FUNDS

Preliminary allocations of funds for wheat were made in August 1956 in connection with the winter wheat signup. On January 14, 1957, the USDA announced the preliminary allocation of funds in the 1957 ARP. The Soil Bank Act authorizes a ceiling for annual expenditures for each basic commodity, the sum of which is $1,050 million, but the maximum expenditure for all commodities is limited to $750 million each year.

The manner in which the allocations were made to the commodities is explained in detail in the staff's previous report. In summary, they were made by (1) taking the maximum legal limit for each commodity, (2) reducing the limit to the pro rata share of $750 million, and (3) distributing the share provided for peanuts in the statute to the other 5 commodities.

A comparison of the commodity limits, allocation of funds, and commodity participation, as reported through May 17, 1957, is as follows:

Commodity	Maximum limit	Allocation	Acreage-reserve program participation	Percent acreage-reserve program to allocation
Wheat	$375,000,000	$267,630,000	$230,851,526	86.3
Cotton (Upland)	300,000,000	217,500,000	153,296,122	70.5
Corn	300,000,000	217,500,000	196,417,873	90.3
Peanuts	7,000,000	[1]		
Rice	23,000,000	14,000,000	15,466,625	110.5
Tobacco	45,000,000	34,055,000	17,806,424	52.3
	1,050,000,000	[2] 750,685,000	613,838,570	81.8

[1] No program in 1957.
[2] It will be noted that these allocations exceed slightly the $750,000,000 authorized by Congress. It is anticipated that the excess will be offset by unused reserves, cancellations, partial compliance, etc.

The above table shows that the degree of participation to the allocation ranged from 52.3 percent for tobacco to 110.5 percent for rice. For the 5 commodities it was 81.8 percent of the funds allocated.

Subsequent to the allocation of funds to each commodity, these funds were allocated to the individual State. Information relative to State allocations was set forth in the staff's previous report and, therefore, it will suffice to mention here that they were based primarily on State allotments for the 5 commodities with adjustments permitted as the ARP developed. No ARP funds were allocated to the States of Maine and Rhode Island.

H. PRODUCER PARTICIPATION

At the time this report was prepared, the Soil Bank Division advised that the latest data available with respect to producer participation was its report prepared as of May 17, 1957. The staff was advised that while final reports had been received from State ASC offices they were being reviewed for accuracy, and it was anticipated that final figures would not be released until the latter part of January 1958. Therefore, all data set forth in this report with respect to ARP participation will be predicated upon the report as of May 17, 1957, unless otherwise specified.

The report as of May 17, 1957, shows that 914,396 agreements were executed in 1957, covering 21,354,018 acres, calling for payments totaling $613,838,570. A table showing this participation by commodity, together with comparative figures for 1956, is set forth below.

Acreage-reserve program

Commodity	Number of agreements	Number of acres	Average rate per acre	Maximum compensation
1957 [1]				
Wheat	233,004	12,783,192	$18.06	$230,851,526
Upland cotton	301,053	3,015,630	50.83	153,296,122
Corn	323,686	5,233,478	37.53	196,417,873
Rice	4,825	242,017	63.91	15,466,625
Tobacco	51,828	79,701	223.42	17,806,424
Total	914,396	21,354,018	28.75	613,838,570
1956 [2]				
Wheat	110,974	5,670,441	$7.89	$44,739,889
Cotton	95,669	1,121,151	24.38	27,336,091
Corn	314,761	5,315,578	33.80	179,664,064
Rice	1,117	28,162	49.51	1,394,294
Tobacco	20,093	32,502	204.08	6,633,018
Peanuts	5,310	44,000	13.54	595,626
Total	547,924	12,211,834	21.32	260,362,982

[1] May 17, 1957.
[2] Jan. 17, 1957.

In connection with 1957 payments, CSS advised that, through November 30, 1957, the following compensation had been paid to producers for participation in the 1957 acreage-reserve program:

Commodity:	Compensation paid
Wheat	$229,037,522.61
Corn	190,211,903.24
Cotton	151,675,231.44
Tobacco	17,639,408.20
Rice	15,006,892.55
Unallocated	156,809.54
Total	603,727,767.58

I. FUNDS OBLIGATED BY COMMODITY AND STATE

A table is set forth on the following page showing dollars obligated by States for each of the five commodities covered by the 1957 ARP. It shows that the State receiving the largest share of these funds was Kansas, which received approximately $84.9 million. Texas was second with $56.2 million, and Nebraska was third with $44.3 million. Maine and Rhode Island did not participate in the program and New Hampshire's participation was less than $500.

1957 ARP—Funds obligated, as of May 17, 1957

[In thousands]

State	Wheat	Corn	Cotton	Rice	Tobacco	Total
Alabama		$1,733	$15,164		$34	$16,931
Arizona			6,212			6,212
Arkansas	$40	198	10,509	$3,266	7	14,020
California	2,913		7,465	4,667		15,045
Colorado	22,220					22,220
Connecticut					1,616	1,616
Delaware	52	865				917
Florida			793	7	766	1,566
Georgia	805	774	15,747		1,901	19,227
Idaho	4,921					4,921
Illinois	850	18,544	6	1		19,410
Indiana	1,741	16,959			82	18,782
Iowa	169	34,219			(1)	34,388
Kansas	78,864	5,987	(1)		9	84,860
Kentucky	693	7,546	69		1,350	9,658
Louisiana			8,466	2,437		10,903
Maine						
Maryland	266	1,185	1		826	2,278
Massachusetts					965	965
Michigan	4,263	8,017				12,280
Minnesota	2,809	9,263			12	12,084
Mississippi			17,208	771		17,979
Missouri	2,718	20,407	1,159	50	88	24,422
Montana	8,816					8,816
Nebraska	11,545	32,746				44,291
Nevada			76			76
New Hampshire					(1)	(1)
New Jersey	173	1,203				1,376
New Mexico	982		1,480			2,462
New York	3,417					3,417
North Carolina	1,709	2,768	7,235	1	6,130	17,843
North Dakota	21,040	177				21,217
Ohio	4,895	14,413			164	19,472
Oklahoma	16,219		6,129	8		22,356
Oregon	3,204					3,204
Pennsylvania	1,068	2,793			(1)	3,861
Rhode Island						
South Carolina	958		11,773	27	964	13,722
South Dakota	10,045	5,823				15,868
Tennessee	601	3,002	4,278	29	855	8,765
Texas	12,724		39,314	4,203	(1)	56,241
Utah	1,874					1,874
Vermont					2	2
Virginia	840	661	212		1,549	3,262
Washington	6,455					6,455
West Virginia	109	83			73	265
Wisconsin	155	7,052			413	7,620
Wyoming	690					690
Total	230,852	196,418	153,296	15,467	17,806	613,839

[1] Less than $500.

The staff recognizes that the expenditure of $613.8 million did buy some production, but there is no information available in the USDA indicating how much production was actually purchased. To determine the theoretical production purchased, the staff applied the national base unit rate for each commodity to the total dollars expended for each commodity. The results of this computation are:

Commodity	Acreage-reserve program maximum compensation	National base average rate	Theoretical production purchased
Wheat	$230,851,526	$1.20 per bushel	192,376,272 bushels.
Cotton	153,296,122	$0.15 per pound	2,129,113 bales.[1]
Corn	196,417,873	$0.90 per bushel	218,242,081 bushels.
Rice	15,466,625	$2.25 per hundredweight	6,874,056 hundredweight.
Tobacco	17,806,424	$0.176 per pound	101,172,863 pounds.
Total	613,838,570		

[1] Bale equals 480 pounds.

It should be noted that the above calculation is strictly theoretical. It does not take into consideration any factors deviating from normal, such as weather. In another section of this report the effect of drought or flood conditions on production will be reported. Further, the staff's calculation does not take into consideration the fact that there is no cross compliance between farms. Because of this a producer may participate in the ARP on one farm and on another farm exceed his allotment. Also, no consideration has been given to the fact that ARP encourages diversion to nonallotted crops, such as barley, soybeans, and grain sorghums, and therefore, while production of the five basic commodities may have been reduced, the overall supply of some competitive commodities has been increased. Additional information with respect to the lack of cross compliance and diversion to other competitive crops, as well as the effect of other loopholes in the regulations on total production, will be discussed in other sections of this report.

VI. Shifting of Acreage and Production

While retiring acreage from the production of the five basic commcommodities, the 1957 ARP resulted in increasing the acreage planted in certain nonallotment of non-ARP commodities.

According to the USDA, in summer fallow areas where producers rotate their cropland, a certain amount of land is left out of production each year on a fallow basis. To illustrate, a producer with 200 acres of cropland and a 70-acre wheat allotment normally summer fallows 100 acres and harvests 70 acres of wheat and 30 acres of barley.

The USDA acknowledged that a producer could place his entire 70-acre wheat allotment in the acreage reserve and designate such acreage as fallow land. He then could harvest 100 acres of barley, instead of his normal 30 acres. Thus, the Government would pay for a 70-acre reduction in wheat, but would permit a 70-acre increase in barley.

The staff was informed by one manager of an ASC office that when he read the 1957 regulations and found nothing in them that prohibited diversion, he was so amazed that he called the State office to

determine whether he had overlooked something. He said it was elementary that the regulations should have included a provision to prohibit diversion, as it was apparent, not only to him, but to any producer, that if diversion was not prohibited, producers participating in the ARP would also increase production of nonallotted crops.

The staff was also advised by an elevator operator in Montana that he did not feel any loss of business as a result of the ARP because farmers were growing barley instead of wheat and this resulted in utilization of normal capacity. A survey conducted by the Bank of America to evaluate the economic impact of the soil bank called attention to the fact that, when wheatland was placed in the ARP, it frequently resulted in increased production of barley. The survey indicated that, by so diverting land to the production of barley, producers in the State were benefited to the extent of approximately $1.5 million.

The following statistical data relative to planted acreage reflects the shifting of acreage from the production of one commodity to another for the four crops enumerated. These figures are based upon data contained in the Crop Reporting Board's reports of March and July 1957:

Planted acreage (1,000 acres)

Commodity	1957	1956	1946–55 average
Acreage-reserve program crops:			
All wheat	49,658	60,747	[1] 74,031
Corn	73,585	78,557	83,942
Non-acreage-reserve program crops:			
Sorghums for all purposes	27,130	21,503	15,191
Barley for all purposes	16,311	14,712	12,132

[1] Furnished separately by Board.

As indicated in the above schedule, the planted acreage for wheat as of July 1, 1957, was estimated to be 49,658,000 acres. This is approximately 11 million acres less than 1956 and about 24.3 million acres below the 1946–55 average.

The planted acreage for corn as of July 1, 1957, was 73,585,000 acres, nearly 5 million acres below 1956 and 10.4 million below the 10-year average.

With respect to sorghums, the July 1, 1957, report estimated that the acreage of sorghums planted and to be planted in 1957 for all purposes was approximately 27.13 million acres. The Board indicated that this estimate was 26 percent above the 1956 acreage and 79 percent above the 10-year average for 1946–55. With respect to the States, the Board stated that the 10 million acres planted to sorghums in Texas was 11 percent above 1956, Kansas was 54 percent above last year, and Nebraska producers expected to plant 80 percent more acreage in 1957 than in the previous year. The Board further stated:

> ***Much of the increase in sorghum acreage occurred in summer-fallow areas of the Great Plains where sorghums are being grown, as a substitute for wheat acreage placed in the soil bank, on land which might otherwise be in summer-follow.*** [Italic supplied.]

With respect to barley, the Crop Production Board, in its July 1957 report, estimated barley-planted acreage to be approximately 16.3 mil-

lion acres. In 1957 seeded acreage was 11 percent above last year and 34 percent above the average. In the leading barley-producing States of North Dakota, California, Montana, and Washington, seeded acreage ranged from 6 to 47 percent larger than last year. The Board made this significant comment with regard to the acreage planted in barley:

The increase in the United States acreage results largely from the seeding of barley as an alternative to allotment crops. Also in summer fallow areas of the Northwest, barley is being grown, as a substitute for wheat acreage placed in the acreage reserve, on land that otherwise might be summer-fallowed. [Italic supplied.]

In addition to the above comments, the Crop Reporting Board made the following pertinent comment with respect to the estimated acreage for harvest as of July 1, 1957:

Reduction in acreage for harvest of several main crops this year have been slightly more than offset by large increases in others, principally sorghums, barley, oats, and soybeans. The total harvested acreage of 320 million acres now in prospect is almost a million acres larger than was harvested last year. The combined reduction from 1956 in corn, wheat, cotton under cultivation July 1, flaxseed, rice, and tobacco amounts to 12.7 million acres. Sorghums alone now seem likely to increase more than 8 million acres over last year, barley 2.1 million, oats 2.1 million and soybeans 0.6 million.

A comparison of the acreage for harvest for wheat, corn, sorghums, and barley, as compared to previous years, is as follows:

Acreage for harvest July 1 (1,000 acres)

Commodity	1957	1956	1946–55 average
Average-reserve program crops:			
All wheat	43,161	49,817	65,404
Corn	72,289	75,950	82,451
Non average-reserve program crops:			
Sorghums [1]	25,644	17,214	13,916
Barley	14,964	12,827	10,854

[1] Grain and sweet sorghums for all uses including sirup.

The impact resulting from the shifting of this acreage from the production of one commodity to another is illustrated in the following table, which sets forth pertinent production data for the four commodities previously mentioned as reported by the Crop Reporting Board in December 1957:

Production

[In thousand bushels]

Commodity	1957	1956	1946–55 average
Acreage-reserve program crops:			
All wheat	947,102	1,004,272	1,131,000
Corn	3,402,832	3,455,283	3,120,484
Non-acreage-reserve program crops:			
Sorghums [1]	561,977	206,205	155,980
Barley	435,695	376,873	291,589

[1] Sorghum grain only; does not include sorghum silage, forage, and sirup which are reported in tons or gallons.

While the above table shows that the production of grain sorghums was 172 percent greater than 1956 production and production of barley was 16 percent greater than 1956 production, the staff recognizes that this increased production is not entirely due to diversion caused by ARP. The staff recognizes that, particularly with respect to sorghum, a new hybrid seed and favorable moisture over most of the Southwest greatly increased yields. This is indicated by the fact that the yield per acre harvested in 1957 was 28.9 bushels or about 6.3 bushels higher than the previous record yield set in 1950. The staff also recognizes that in several areas of the country heavy spring rains delayed planting of corn so long that producers finally planted sorghums in place of corn.

The staff believes, however, that there is ample evidence supporting its conclusion that a part of the record acreage planted to sorghums and barley and a part of the record production can be attributed to diversion resulting from ARP participation.

The objective of the ARP is to curtail production of basic surplus commodities. It is pointed out, however, that a nonallotted commodity such as sorghums affects the stability of the price of other grain. Grain sorghums are competitive with corn as a feed grain, and the storage of sorghums and barley competes with the storage space for all other grains. The tremendous supply of sorghums produced in 1957 was referred to by the Secretary on September 20, 1957, when he announced the noncompliance rate for corn to be an average of $1.10 a bushel. The press release stated in part:

"I am sorry that we must have the unusual 'noncompliance' price support for corn again this year," said Secretary Benson in commenting on today's announcement. "Under the developing circumstances, however, we have no choice. We must take steps to help stabilize the feed grain market now, and the hog market in the future.

"Part of our trouble stems from the fact that we have no effective corn program this year. While over 62 percent of producers voting favored the new corn-base-acreage program which was offered last fall, the approval fell short of the required two-thirds in the referendum. And there has been no legislative authorization for a better program since that time even though the administration had urgently requested the last session of Congress for such legislation.

"Record supplies of feed grains are in prospect for the 1957–58 feeding year. In addition to a large 3.2 billion bushel corn crop, the indicated sorghum for grain production is 481 million bushels, almost 2½ times the 1956 production. Also, it now appears that the 1957 barley crop is of record size."

Under the 1957 ARP, the USDA placed no safeguards in the program to prevent the shifting of acreage from the production of one commodity to another. In this regard, the USDA filed a statement which appears in the transcript of the 1958 hearings before the House Committee on Agriculture Appropriations, the pertinent portion of which is quoted below:

The Soil Bank Act gives the Department no guidance concerning the shifting of acreage from allotment crops to nonallotment crops under the acreage-reserve program similar to the directive contained in section 107 (a) (2) concerning the conservation reserve. Therefore the Department so far has placed no safeguards in the acreage-reserve program to prevent such shifts from occurring.

The attitude of the USDA in this respect may be summarized in the following comment made by Marvin McLain, Assistant Secretary of Agriculture, which also appears in the testimony of the aforesaid 1958 hearings:

The law doesn't say we should do it. The interpretation we get from our General Counsel is that we could do it if we felt that we could take the heat to do it.

The failure to place these safeguards in the ARP to prevent the shifting of acreage from the production of one commodity to another appears to this staff to be one of the most serious delinquencies in the 1957 ARP regulations.

The USDA recognized this delinquency by providing a soil-bank base for participants in the 1958 ARP. As stated previously in the report, in 1958 a total crop-acreage figure will be established for each farm, to be based primarily on past production history and known as the "soil-bank base." It is required that total harvested acreage in 1958 be held below the "base" by the equivalent of the number of acres placed in the soil bank.

The USDA stated the reason for this change was:

One major problem in the acreage-reserve program has been the tendency to shift production from acreage-reserve crops to other crops which contribute to overall surpluses. The soil-bank-base provision, with its limit on total harvested crops, will help to check this undesirable diversion.

The staff is in agreement with these regulations, but believes they are a year too late.

VII. Wheat

A. PARTICIPATION

In 1957, producers in 36 States executed 233,004 wheat ARP agreements, covering 12,783,192 acres of land and calling for maximum compensation of $230,851,526. These agreements averaged $990.76 each, covering 54.9 acres at $18.06 an acre.

The value of the wheat agreements executed amounted to 38 percent of the total 1957 ARP program. The acreage involved in the agreements amounted to 23.2 percent of the national allotment of 55 million acres. Of the total wheat participation, winter wheat contsituted the major portion of the program.

1. Durum Wheat Act of 1957

The Durum Wheat Act of 1957, which was signed by the President on April 2, 1957, continued the practice of allowing additional allotments for producers of durum wheat in certain durum-producing counties in North Dakota, Minnesota, Montana, South Dakota, and California.

In 1956 the Durum Wheat Act allowed two additional acres of durum to be planted for each acre of durum planted within the original allotment. The act set no maximum acreage increase except for the requirement that the increased allotment could not exceed the smaller of (1) the cropland on the farm well suited to wheat, or (2) the wheat acreage on the farm. The Durum Wheat Act of 1957 allowed 1 additional acre of durum for each acre of durum planted within the original allotment. However, the maximum increase in allotment was limited to 60 acres.

The staff's previous report pointed out that the effects of the 1956 Durum Act acted in conflict with the ARP regulations for that year. One illustration cited was that of a producer in Grand Forks County, N. Dak., who had participated in the 1956 ARP. This producer, who had an original allotment of 761 acres, planted 43 acres of spring

wheat and 1,286 acres of durum wheat. By the methods used in computing soil-bank payments in that year, this producer was considered to have underplanted his allotment by planting durum wheat, and he was permitted to place 50 percent of his original allotment, or 380 acres, in the soil bank. As payment for his soil-bank participation, the producer received $27.28 an acre for a total of $10,366.40.

Under the 1957 program, this producer with an allotment of 761 acres, could grow a maximum acreage of 821 acres of wheat. This maximum could be grown only if at least 60 acres of the original allotment was seeded in durum and the additional 60 acres in excess of the original allotment was also seeded in durum. (To obtain the maximum increase, the producer would have to plant at least 120 acres of durum.) If the producer wished to participate in the ARP, he would be required to reduce his planted acreage by the acreage placed in the soil bank. Thus, if the producer grew 821 acres of wheat, he could not participate in the ARP to any extent. This compares with the 1956 program, where a producer with the same allotment could harvest 1,329 acres of wheat and still receive more than $10,000 for the participation in ARP.

It appears that many of the conflicts between the Durum Wheat Act of 1956 and the soil-bank regulations have been corrected. The Durum Wheat Act of 1957, which allowed 1 additional acre of durum for each acre of durum within the allotment, with a maximum allotment increase of 60 acres, helped remedy the situation. In addition, the instructions issued by the USDA concerning the increased allotment which may be given durum-wheat producers provided that a producer may not harvest an acreage which is in excess of his original allotment plus the increased durum allotment. Thus, a producer who placed land in the 1957 wheat ARP was required to underplant his allotment to the degree indicated by his ARP participation.

Field trips into various durum-producing counties in Montana disclosed that ARP participation in 1957 was not subject to the abuses which were possible under the 1956 soil-bank program.

B. COMPARISON, ARP COMPENSATION WITH PRODUCTION

The summary of the compensation received by each State for participation in the wheat ARP is set forth in the following schedule which includes pertinent production data relative to wheat for the years 1957, 1956, and the 10-year average, 1946–55:

Wheat

State	Acreage-reserve program	Production (1,000 bushels)			Yield per acre (bushels)		
		Indicated, 1957	1956	1946–55 10-year average	Indicated, 1957	1956	1946–55 10-year average
Arkansas	$39,580	3,200	2,736	770	20.0	28.5	17.4
California	2,912,644	6,226	8,253	11,137	22.0	21.0	19.0
Colorado	22,220,374	33,854	17,652	41,278	24.5	11.2	16.4
Delaware	51,940	638	961	1,060	22.0	31.0	20.2
Georgia	804,666	1,848	2,520	2,091	16.5	21.0	15.6
Idaho	4,921,047	42,350	38,980	39,528	37.0	32.5	27.8
Illinois	859,008	37,149	60,862	39,280	21.0	37.5	23.5
Indiana	1,741,041	32,360	36,173	35,497	25.5	30.5	23.7
Iowa	169,259	3,744	2,375	4,131	26.7	19.8	21.0
Kansas	78,864,012	100,111	143,282	194,917	19.0	15.5	15.8
Kentucky	692,744	4,076	5,486	4,751	19.5	26.5	18.1
Maryland	266,279	3,397	4,730	5,620	21.5	27.5	20.8
Michigan	4,262,467	28,739	31,290	32,201	29.0	30.0	26.8
Minnesota	2,809,192	15,780	17,218	17,673	22.6	23.7	17.0
Missouri	2,717,534	37,780	50,630	30,959	23.0	30.5	21.6
Montana	8,816,397	83,815	86,983	86,019	19.8	18.2	17.0
Nebraska	11,544,433	78,821	64,698	79,801	26.9	19.5	20.3
New Jersey	172,519	1,475	1,508	1,823	29.5	29.0	25.3
New Mexico	982,110	1,962	1,107	2,795	16.1	8.6	8.3
New York	3,417,454	8,085	9,610	10,726	33.0	31.0	27.9
North Carolina	1,709,021	6,650	9,384	7,144	19.0	25.5	18.6
North Dakota	21,040,485	118,144	118,824	118,467	18.8	17.2	12.5
Ohio	4,895,551	32,890	39,676	50,834	22.0	26.0	24.8
Oklahoma	16,219,205	43,025	69,267	72,900	12.5	16.5	12.9
Oregon	3,203,975	26,788	25,607	26,813	36.0	31.4	26.3
Pennsylvania	1,068,182	14,248	15,579	19,425	26.0	27.0	23.4
South Carolina	958,057	3,510	4,117	2,847	18.0	23.0	16.8
South Dakota	10,044,542	40,037	16,537	40,069	20.2	9.7	11.4
Tennessee	601,083	3,485	4,715	4,063	17.0	23.0	16.0
Texas	12,724,261	33,669	26,388	47,339	14.5	12.5	10.8
Utah	1,873,803	6,559	7,354	7,984	23.5	22.0	20.3
Virginia	840,130	4,731	7,236	7,588	19.0	27.0	20.6
Washington	6,454,548	69,333	59,826	72,058	36.5	29.5	27.4
West Virginia	109,359	609	888	1,264	21.0	24.0	20.3
Wisconsin	154,767	1,377	1,440	2,148	25.5	26.7	24.3
Wyoming	689,857	6,376	5,145	6,166	22.1	18.2	18.2
Total acreage-reserve program States	230,851,526	936,910	999,037	1,129,166			
Non-acreage-reserve program States		10,192	5,235	2,172			
Total United States	230,851,526	947,102	1,004,272	1,131,338	21.7	20.2	17.4

As indicated in the preceding schedule, the 1957 production of all wheat was estimated at 947 million bushels, 6 percent lower than 1956 and about 16 percent below the 1946–55 average. Land seeded in wheat in the fall of 1956 and the spring of 1957 was 49.9 million acres, 18 percent less than 1956 and nearly a third below the 1946–55 average. The 1957 yield for each harvested acre was 21.7 bushels, which exceeded the record high of 20.2 bushels in 1956 and was well above the 1946–55 average of 17.4 bushels an acre.

According to the Annual Crop Summary, December 1957, the national wheat production for 1957, classified by types of wheat, together with national wheat production for prior years, was as follows:

Production

[In thousands of bushels]

Year	Winter wheat	Other spring wheat	Durum wheat	All wheat
1957	707, 201	200, 221	39, 680	947, 102
1956	740, 928	224, 841	38, 503	1, 004, 272
1946–55 average	862, 471	238, 892	29, 637	1, 131, 000

A comparison of the 1957 yield for each harvested acre for the 3 types of wheat with yields for prior years is as follows:

Year	Winter wheat	Other spring wheat	Durum wheat	All wheat
1957 bushels	22. 4	20. 5	17. 4	21. 7
1956 do	20. 8	18. 9	16. 7	20. 2
1946–55 average do	18. 6	14. 6	11. 7	17. 4

A summary of the pertinent comments appearing in the annual crop report relative to each of the various types of wheat follows:

Winter wheat.—The 1957 winter wheat crop was estimated at 707 million bushels, nearly 5 percent less than 1956 and 18 percent smaller than average. In pointing out that this year's crop was the third smallest since 1942, the annual crop summary stated that the smaller crop reflected the reduced acreage utilized for wheat as a result of the ARP.

The 1957 average yield per harvested acre was 22.4 bushels—a record yield and a fifth larger than average.

An estimated 37.5 million acres were seeded for harvest, 16 percent less than the acreage seeded the previous year and nearly one-third below average. The report further indicated that the 1957 crop seemed to "emerge from the drought deathbed" to give promise of favorable production only to be faced with the ravages of floods and excessive rain. It further stated that practically the entire winter wheat-producing areas experienced weather extremes that delayed seeding or slowed plant development. Much of a large amount of acreage in the central and southern Great Plains area succumbed to drought during the winter months; however, a surprising amount of acreage held on until generous rains appeared in late winter.

Other spring wheat.—Production of spring wheat other than durum in 1957 was estimated at 200 million bushels, 11 percent less than last year and 16 percent less than average.

In the North Central States, acreage harvested was down sharply in each important State except South Dakota, where there was heavy abandonment in 1956. In the West, all States harvested a smaller acreage this year than in 1956 except Colorado, New Mexico and Nevada. The yield for each harvested acre for the United States was 20.5 bushels compared with 18.9 bushels in 1956, and the average of 14.6 bushels.

Durum wheat.—The 1957 durum wheat crop of 39.7 million bushels was slightly larger than the 1956 production and one-third larger than average. The Dakotas and Minnesota showed sharp increases in production, but the Montana production was less than one half of the previous year.

Larger production in 1957 resulted from favorable yield and the liberalized allotment program for durum wheat for 1957 was a factor in maintaining or increasing the acreage in the Dakotas and Minnesota. An additional factor was the availability of adequate supplies of seed of the new rust-resistant varieties. Durum acreage in Montana declined sharply from the previous year as many growers returned to winter and other hard spring varieties.

The staff visited the States of Colorado and Kansas in connection with its survey. The participation of these two States amounted to approximately $101 million, or 44 percent of the entire wheat ARP. The staff's findings relative to these States follow.

C. COLORADO

1. Participation

A review of the 1957 ARP [1] in Colorado disclosed that producers of the State executed 7,436 agreements, placing in the ARP 1,307,102 acres, calling for maximum compensation of $22,095,309. It is to be noted that Colorado producers placed 47.3 percent of their share of the national allotment in the ARP, whereas nationally only 23.2 percent of the total wheat allotment of 55 million acres was placed in the ARP.

2. Production

The estimated production for Colorado in 1957 was 33,854,000 bushels. This is to be compared with 1956 production of 17,652,000 bushels and a 10-year average production of 41,278,000 bushels.

The 1956 figure shows the impact of the very serious prolonged drought in the State. Colorado produces winter wheat and, therefore, the agreements were executed prior to October 5, 1956. The normal planting season for winter wheat in Colorado begins on or about August 25 and ends on or about September 30 each year. The April 1957 crop production report stated that, in Colorado, drought conditions at seeding time persisted until late winter with much acreage not surving the winter and early spring ravages of drought and excessive winds. Wheat that survived was mostly well rooted and benefited by mositure that fell during late March and early April. East central and southeastern areas of the State have only a relatively small percentage of their seeded acreage remaining for harvest.

A review of the county participation in the State reflected that the percentage of allotment placed in the ARB ranged from 3 percent in Logan County to a high of 95 percent in Cheyenne County. This review also indicated that the largest participating counties were in the southeastern and eastern central sections of the State which were severely stricken by drought during the past several years. A tabulation of 6 of the largest participating counties, whose total participation amounted to approximately $14.9 million, or 67.5 percent of the entire State, is as follows:

[1] Final report corrected as of August 16, 1957.

County	Acreage placed in 1957 acreage reserve	Percent of county wheat allotment placed in acreage reserve	Maximum compensation per acreage reserve agreement
Kit Carson	215,416.2	88	$4,182,905
Kiowa	215,037.0	91	2,706,635
Prowers	136,853.0	82	2,560,705
Baca	167,578.5	60	2,371,924
Cheyenne	138,087.7	95	2,138,205
Lincoln	58,803.0	41	946,607
Total	931,775.4		14,906,981

In connection with the above tabulation, it is interesting to note that on January 9, 1956, the Underwriting Division of the Federal Crop Insurance Corporation canceled its insurance program in three of these counties, namely, Baca, Kiowa, and Powers. This action resulted from the losses incurred in these counties from insuring crops in the dust-bowl area during the years 1948–55. It is further interesting to note that ASC officials interviewed in Kiowa County stated that, in the county, the last good crop harvested was in 1952. They advised that producers in the area count on a crop once every 5 years.

3. ARP wheat yields

In 1956 the Soil Bank Division established county average normal wheat yields which were utilized in making payments under the 1956 ARP. The county wheat yields established in 1956 were the same as those developed and established for marketing quota purposes. The marketing quota yields established for 1956 were based upon production for the 10-year period 1945–54, eliminating those years where production was less than 75 percent of the 10-year average. Where production was in excess of 125 percent of the normal 10-year average, the yield was adjusted back to 125 percent. The average of the adjusted production figures is weighted for trend by averaging the adjusted production for the 3 most recent years, with the adjusted 10-year average.

In 1957 the ARP yields were generally the same as those established in 1956, but there were some few increases in the 1957 ARP yields over the prior year. The staff learned that in general the same rates were used for both years, because the marketing quota yield data was not available at the time the 1957 wheat program was launched.

In some of the drought counties in Colorado, as well as in other States, the 1957 ARP yield was set higher than in 1956. This was done by eliminating the trend adjustment utilized in marketing quota yields for that year. Three counties in which these changes occurred in Colorado were Lincoln, Kiowa, and Kit Carson. A comparison of the normal yields in these three counties for the years 1957 and 1956 is as follows:

County	1957	1956
	Bushels	*Bushels*
Lincoln	14.0	12.7
Kiowa	10.6	9.8
Kit Carson	16.5	16.0

In view of the heavy participation in the above-mentioned 6 counties, and since the Federal Crop Insurance Corporation advised that the land in 3 of the counties was uninsurable and because of the comments by officials of Kiowa County that they expect a harvest every 5 years, the staff made a comparison of the soil-bank yields in effect in these 6 counties for 1957 with the actual production experienced previously in these localities. A schedule is set forth on the following page reflecting the 1957 ARP county yields for the pertinent counties as well as the actual planted and harvested yields for each acre experienced in these counties from 1945 to 1956.

Winter wheat, 1957 acreage-reserve program county yields, planted and harvested yields, 6 counties in Colorado

Year	Cheyenne County	Lincoln County	Kit Carson County	Kiowa County	Baca County	Prowers County
	Acreage-reserve program county bushel yield per acre					
1957	13.1	14.0	16.5	10.6	11.9	16.5
	Bushel yield per planted acre					
1956	0.1	3.0	0.6	0.2	2.0	1.7
1955	.8	2.5	.7	1.1	3.6	2.5
1954	1.7	3.4	3.3	1.3	.7	1.0
1953	5.1	12.1	10.1	1.9	.7	2.6
1952	13.8	11.5	16.0	9.1	1.9	6.1
1951	3.3	8.0	6.8	5.0	2.8	2.6
1950	5.7	10.1	9.7	3.0	1.3	4.3
1949	12.6	8.0	9.6	8.8	17.1	15.9
1948	17.8	19.1	17.6	16.7	18.7	23.1
1947	18.4	16.4	18.8	20.0	21.6	24.3
1946	12.6	15.5	21.8	19.1	9.0	12.4
1945	11.3	23.5	18.2	8.8	14.3	23.6
	Bushel yield per harvested acre					
1956	3.0	5.0	4.3	4.0	8.0	7.7
1955	6.0	8.0	5.2	6.0	10.0	7.9
1954	5.0	6.0	5.0	6.0	5.0	6.9
1953	8.0	14.0	12.0	6.0	4.1	5.2
1952	15.0	12.0	17.0	12.0	8.0	10.2
1951	7.0	12.0	12.0	9.0	7.0	5.9
1950	9.0	12.0	12.0	9.0	5.1	7.5
1949	14.0	13.0	12.0	12.0	18.0	17.5
1948	20.0	21.0	20.0	18.0	21.0	23.8
1947	20.0	18.0	20.0	22.0	22.0	25.1
1946	15.0	17.0	24.0	21.0	10.0	14.5
1945	15.0	24.0	24.0	13.0	19.1	24.9

From a review of the above schedule, it may be seen that the acreage-reserve yield for 1957 bears no relation to the actual planted or harvested yield per acre in these counties for several years.

In Cheyenne County the yield per planted acre for the 4 years 1953 through 1956 totaled only 7.7 bushels, whereas the ARP yield established was 13.1 bushels. In Lincoln County the total yield per planted acre for the 3 years 1954 through 1956 was 8.9 bushels per acre, as compared to an ARP yield established of 14.0 bushels. In Kit Carson County the total yield per planted acre for 1953 through 1956 was 14.7 bushels per acre, compared to the ARP yield of 16.5 bushels. For the same period in Kiowa County, and on the same basis, the yield was 4.5 bushels against a soil-bank yield of 10.6. In Baca County the total yield per planted acre from 1950 through 1956 was about equal to the soil-bank yield for the single year 1957.

In comparing the yield per planted acre, the schedule indicates that there was fairly consistent production in these counties from 1945 to 1949, but after that the record appears to confirm the statement of ASC personnel interviewed in Kiowa County, who stated they expected a good crop every 5 years. The schedule indicates that this applies not only to Kiowa County but to the other five counties as well.

In reviewing the above schedule, basing the comparison on the yield per harvested acre, the 1957 ARP yield in 4 of the 6 counties is in excess of the combined yield per harvested acre in these counties for the years 1955 and 1956.

The staff believes that the utilization of marketing-quota yields to determine soil-bank yields is not realistic, particularly in areas where there has been severe and prolonged drought. According to the method of computing marketing-quota yields, the elimination of those years where production was less than 75 percent of the 10-year average tends to make 1 year's normal production the average production for a period of time. The staff believes that the soil-bank yields for the 1957 wheat ARP in the six drought counties of Colorado were unrealistic. The crop history in the 6 counties described in this section of the report may account for the fact that the largest recipient of payments under the 1957 ARP was the John W. Baughman Farms Co. and related interests whose principal operations were in these 6 counties.

4. Large payments

(*a*) *Baughman farm interests.*—In 1957 payments totaling $346,546.56 were made under the ARP to various affiliated and interrelated firms which the staff designates as Baughman Farm interests. These firms operate in Colorado and Kansas under the names of John W. Baughman Farms Co., J. W. Baughman Farms Co., the Estate of John W. Baughman, J. W. B. Farms, Baughman Land Co., and other similar titles. While the staff recognizes these to be independent entities, since they are interrelated and affiliated, the staff considered the payments to the individual firms as payments to the same interests. The total payments made to the Baughman Farm interests consisted of $321,261.40 in ARP payments in the State of Colorado, and $25,285.16 for ARP participation in Kansas.

These firms, which have headquarters in Liberal, Kans., own vast amounts of land in the States of Colorado and Kansas which is farmed by tenants who operate on a share basis, generally of one-quarter and three-quarters or one-third and two-thirds, with the tenant receiving the larger proportion of the share.

In the State of Colorado, 337 operators of Baughman land executed agreements in 6 counties of the State. The farms represented by these agreements consisted of 255,063 acres. The operators of these farms had a total wheat allotment of 85,179.6 acres and placed 73,929.1 acres in the ARP, or 87 percent of their entire allotment. These agreements called for compensation of $1,114,152.22. The tenants' share of this compensation was $792,890.82 and the Baughman share $321,261.40. The extent of the Baughman participation in Colorado under the 1957 ARP winter-wheat program will be seen in detail in the schedule on the following page.

Colorado	Kit Carson County	Kiowa County	Cheyenne County	Lincoln County	Baca County	Prowers County	All counties, Colorado
Total wheat allotment	16,757.0	23,547.0	22,565.0	13,141.6	7,415.0	1,754.0	85,179.6
Number of acres in acreage-reserve program	15,897.5	23,041.0	20,878.9	5,573.0	7,263.5	1,275.2	73,929.1
Average rate per acre	$19.45	$12.49	$15.26	$16.71	$11.91	$14.79	$15.07
Value of acreage-reserve program contracts	309,158.46	287,877.66	318,633.07	93,139.00	86,481.73	18,862.30	1,114,152.22
Pro rata share, Baughman	102,357.21	72,404.71	94,102.08	26,175.61	21,511.94	4,709.85	321,261.40
Pro rata share to tenants	206,801.25	215,472.95	224,530.99	66,963.39	64,969.79	14,152.45	792,890.82
Total	309,158.46	287,877.66	318,633.07	93,139.00	86,481.73	18,862.30	1,114,152.22
Percent of allotment in acreage-reserve program	94.9	97.9	92.5	42.4	98.0	72.7	86.8

In addition to the $321,261.40 for the Baughman interests received in Colorado, the payments to Baughman in Kansas amounted to $25,285.16. These payments resulted from 40 Baughman operators placing 4,446.5 acres in the ARP out of a total allotment of 4,640.4 acres.

(*b*) *Garvey farms and family interests.*—Payments totaling $318,734.29 were made to Garvey Farms of Colby, Kans., and to individual members of the Garvey family. Although individual payments were made to Garvey Farms and to members of the family, since the ultimate recipients were members of the firm or members of the family the staff considered all payments as having gone to one interest.

This firm also owns large tracts of land in the States of Colorado and Kansas. It does not operate the land on a tenant basis, but utilizes hired help in its farm operations. Therefore, the firm receives the full amount of each acreage-reserve agreement executed. The operations of the firm in Colorado are coordinated in the Kiowa County ASC office. In 1957 the firm executed agreement No. 780 in Kiowa County, placing 18,608 acres in the ARP out of a total allotment of 21,216 acres, or 88 percent of the entire allotment. The rate of payment for each acre was $10.62, and the amount of the contract was $197,616.96. The contract indicated that Garvey Farms would receive $196,971.79 and the balance of $645.17 would go to owners of small tracts of land adjoining the Garvey land operated by Garvey Farms.

In Kansas the Garvey Farms conducted its operations in Thomas, Greeley, Wallace, Sherman, and Logan Counties. All of the farms in the various counties, with the exception of Greeley County, are administered by the Thomas County ASC office at Colby, Kans. The soil-bank records of Thomas County indicate that, under agreement No. 448, Garvey Farms entered 5,568 acres in the 1957 winter-wheat ARP out of a combined wheat allotment of 8,860. The payment rate was $20.40 per acre, and the contracts called for maximum compensation of $113,587.20. This payment was made to the firm and various members of the Garvey family.

In Greeley County, the firm executed agreement No. 333, placing 458 acres in the 1957 winter-wheat ARP out of a total allotment of 937 acres. The rate of payment was $17.85 and the contracts called

for maximum compensation of $8,175.30. The combined payments of the contracts in Kansas was $121,762.50. Mr. Harold Hobbick, office manager, Thomas County ASC office, advised that it was his opinion that the Garvey Farms participated so heavily in the 1957 ARP because there had been a drought for the past 5 years, and that, at the time of the signup, the outlook for 1957 was no better. In effect, the contracts were executed to utilize ARP as drought protection or insurance.

In Colorado, ASC officials advised the staff that the drought history in southeastern Colorado was the cause for, not only the heavy participation of both Garvey Farms and Baughman Farms, but also heavy participation in general in the area. A review of the crop production for this area of Colorado as set forth previously in this report confirms these statements. One official in Colorado stated that the main emphasis placed on the program by Washington appeared to him to be purely dollar emphasis and not production emphasis. He explained that the main question repeated to him was "How many dollars have been signed up?" rather than "How much actual production are you buying?" He said that it appeared to him that the success of the program was gaged on the amount of dollar participation, rather than the realistic objective of the statute; namely, how much actual production has been purchased to ease the surplus situation.

In the May 31, 1957, issue of the U. S. News & World Report, in an article captioned "The Official View on How 'Soil Bank' is Working," Secretary Benson stated:

> **Any sound evaluation of the "soil bank" must start with an understanding of the basic purpose for which it was enacted. Aimed directly at accumulated surplus, the acreage reserve offers producers of basic crops an opportunity to reduce current production of these crops without loss of net income.**
>
> **Since the soil bank was designed to take acres out of production, it does not matter, under the purpose of the act, whether 100 farmers take out 10 acres each or whether 1 farmer takes out 1,000 acres—the net result in either case will be the taking out of production of 1,000 acres.**
>
> **We may be surprised that a single Kansas wheat farmer received over $61,000 in soil-bank payments, but we must remember that, if this same farmer had grown his normal wheat crop, the Commodity Credit Corporation would have been obliged to extend him a nonrecourse loan of around $102,000. Furthermore, if the market did not rise above the loan value, CCC would also acquire the wheat and would be faced with the additional expense of warehousing and of selling or disposing of it in some other fashion.**

The payment referred to in the article was made to Garvey Farms under contract No. 484, executed in the Kiowa County office on July 19, 1956. According to the contract, 10,267.5 acres of land were placed in the 1956 wheat ARP at the rate of $6 an acre, the disaster rate. The staff does not object to large payments being made to producers. The staff emphasizes the point that each dollar spent under ARP should purchase a dollar's worth of production. From te crop history reported in the previous schedules reflecting the yield per planted and harvested acre in Colorado for 1956, the Garvey Farms had but slim hope of realizing its normal wheat production when it executed the contract on July 19, 1956. This is indicated by the fact that the producer was willing to accept a payment based on the rate of $6 an acre.

The staff does not know how much actual production was purchased under the 1957 ARP by paying the Baughman and Garvey interests

approximately $666,000. However, the information supplied previously in the report indicates that they were not financially hurt by "taking a gamble" in soil bank.

D. KANSAS

1. Participation

Kansas producers executed 37,270 winter wheat ARP agreements covering 4,232,053 acres, which represented approximately 40 percent of their 10,615,188 allotted wheat acres. These producers received ARP payments totaling $78,864,012, or approximately 34 percent of the $230,851,526 obligated nationally for wheat.

2. Production and planted acreage—wheat

Production of wheat in 1957 was 100.1 million bushels, which represented a decline of 30 percent from the 143.2 million bushels produced in 1956. As compared to average production of 194.9 million bushels for the period 1946–55, 1957 production represented a decline of 49 percent.

Planted acreage for 1957 was 7.2 million acres, which was approximately 34 percent less than the 10.9 million acres planted in 1956.

While production and planted acreage of wheat were considerably lower in 1957 than in 1956 and previous years, information was not available to determine what part of the decrease was due to the ARP and what part was caused by weather.

Producers in Ellsworth, Thomas, and Seward Counties placed 203,194 acres in the ARP. According to personnel of these three county ASC offices, participation in the 1957 ARP had been heavy because of drought conditions in their counties during 1956 and prior years.

The weather was an influence at planting time (September 15–October 15) throughout Kansas is indicated by the fact that at the time of the signup for the 1957 winter wheat program (October 4, 1956) all or part of 79 of the 105 Kansas counties had been designated disaster areas by the USDA and, as a result, farmers in these counties were eligible to participate in special drought emergency programs.

Also indicative of the condition of much of the land in Kansas is the fact that the USDA, during hearings before the subcommittee of the Committee on Appropriations in April 1957, furnished a tabulation which showed that approximately 10 million acres in Kansas were in condition to blow as of December 1, 1956. For all the southern Great Plains States, the total acreage in condition to blow was 21 million acres.

The effect of weather during the growing season is indicated by the crop production report for April 1957, which made the following comments:

> In Kansas, heaviest loss of acreage has occurred in the western half of the State where continued dry weather through February and extremely high winds about mid-March resulted in heavy acreage losses. Early spring precipitation in the form of rain and snow greatly improved soil-moisture conditions throughout the State. Spring rains caused some sprouting of wheat drilled in dry soil the previous fall but wheat germinating this late is not expected to yield well.

It would seem that the drought at the time of the signup for wheat, not only fostered participation in the ARP, but probably also cut

production of those producers who decided to gamble on the weather and planted wheat.

Paradoxically, at the time of harvest (June 25 to July 20) there was too much rain which damaged the crop. This is indicated by the following comment contained in the crop production report for July 1957:

> The Kansas crop declined during June as rains kept combines out of ripe fields while yields were being reduced by lodging, shattering, and flooding. Development of the wheat was generally late this year with maturity about 2 weeks behind recent years.
>
> Rains during and since maturity delayed harvest operations even further with harvest now 3 to 4 weeks behind the usual period in southern counties. By the end of June, only about 5 percent of the acreage had been harvested compared with nearly 90 percent a year ago. Much of the acreage is down which will slow the progress of harvest and increase danger of additional serious losses should rains continue through the first half of July. Only a limited quantity had arrived at markets by July 1 with quality showing wide variation, being above average from east-central and south-central areas but exceedingly low for southeastern counties.

Two interesting illustrations of the effect that weather has upon participation were obtained while reviewing ARP contracts at Thomas and Seward County offices.

At the Thomas County ASC office it was learned that Frank Vacin had executed a 1957 ARP winter-wheat agreement on October 4, 1956, to place 517 acres of his 1,034-acre allotment in the ARP. Under this agreement, Vacin and his partners were to receive $10,546.80. However, because rainfall greatly improved crop prospects, this producer canceled his ARP contract and, by so doing, not only forfeited the ARP payment, but also paid a civil penalty of $5,273.40.

A review of the ARP files at the Seward County ASC office indicated that F. A. Prater executed a 1957 winter-wheat ARP agreement on October 3, 1956, covering 906 acres, for which he was to receive $14,015.82. This producer indicated he desired to put an additional 908 acres in the ARP, if producers were later permitted to place 100 percent of their allotment in the program.

On October 4, 1956, the State ASC office advised the Seward ASC office that all producers who had previously indicated a desire to place additional acreage in the ARP could now participate up to 100 percent of their allotment. On October 5, 1956, the county office sent letters to all producers, including Prater, advising that they could participate to the extent of 100 percent of their allotment, providing they executed a new ARP agreement on or before October 15, 1956. The files indicate, however, that Prater executed a new ARP agreement dated October 24, 1956, by which agreement he placed 1,814 acres in the ARP, for which he was to receive $28,062.58.

Personnel of the Seward County ASC office advised they originally refused to permit Prater to revise his contract after the deadline date, but he complained to the State office and it instructed them to allow Prater to execute a new agreement. They said Prater contended he had not received their letter of October 5, 1956, and, while the file indicates a letter was sent to him, they could not prove he actually received it. They added, however, that the fact that additional acreage could be placed in the ARP received wide publicity through newspapers, radio, and television, and said everybody in the county knew it who "wasn't dead."

They stated they recalled very definitely that there were heavy black clouds hanging over the area on the deadline date, October 15, 1956, and everyone expected a heavy rainfall which would break the drought. However, the rainfall did not materialize and they assumed that this producer probably failed to execute a new agreement before October 15, 1956, because he was gambling on a heavy rain. It was their opinion that other producers probably had taken a similar gamble and they thought it was unfair to permit Prater to execute a new agreement under such circumstances.

The consensus of the ASC personnel was that participation in the 1958 winter wheat program by producers in western Kansas would be considerably less than it was in 1957 because western Kansas had rather good rainfall in the spring of 1957. They stated that, since the ARP payment is predicated upon normal yields, it was their opinion that the rate is unrealistic, because the producers obtain payment for normal yields when prospects for normal yields are poor and do not participate when prospects are good.

3. Diversion

The following tabulation indicates the production and planted acreage for wheat, sorghums, and barley for the years 1957, 1956, and the average for the years 1946–55:

Production [1]

[Thousand bushels]

	All wheat	Sorghums	Barley	Total
1957	100,111	129,129	15,136	244,376
1956	143,282	24,390	10,404	178,076
1946–55 average	194,917	31,878	5,334	232,129

Planted acreage [2]

[Thousand acres]

	All wheat	Sorghums	Barley	Total
1957	6,871	8,010	887	15,768
1956	10,907	5,201	806	16,914
1946–55 average	14,079	3,601	417	18,097

[1] December crop production report.
[2] July crop production report.

While the above schedules indicate there was a reduction in both the production and the planted acreage of wheat in 1957 as compared with 1956, there was also an increase in both the production and planted acreage of sorghums. Planted acreage of wheat in 1957 was 34 percent less than the acreage planted of wheat in 1956. However, acreage planted to sorghums in 1957 was 54 percent greater than the acreage planted to sorghums in 1956; the production of wheat in 1957 was 30 percent less than the production in 1956; but sorghum production in 1957 was approximately 430 percent greater than in 1956.

It is apparent from the above figures that wheat producers in Kansas diverted considerable acreage from wheat to sorghums. In this regard, an official of the Kansas ASC office advised that the 1957

ARP does not reduce total production of grain. He said that, because of the ARP, producers are planting twice their normal acreage in milo, maize, and sorghums, all of which are competitive with corn as animal feeds. An official of Thomas County ASC office also indicated that the ARP has caused diversion to other competitive crops, when he stated that producers in Thomas County who have participated in the 1957 ARP have diverted their land to the production of milo. He estimated that the production of milo in his county would be the greatest in history.

VIII. Corn

A. PARTICIPATION

In 1957, producers in 24 States who were eligible for participation in the corn ARP executed 323,686 agreements covering 5,233,478 acres of land and calling for maximum compensation of $196,417,873. This compensation represented 90.3 percent of the total funds allocated to corn under the program, and the acreage involved represented approximately 14 percent of the 1957 national corn allotment. The agreements averaged $606.82 each, representing approximately 16.2 acres at $37.53 an acre.

1. Corn base acreage

The staff previously reported that the Soil Bank Act established a 1956 corn base acreage of 51 million acres, which was 7.7 million acres more than the national allotment of 43.3 million acres.

Pursuant to the Soil Bank Act, a referendum was held in December 1956 to determine if two-thirds of the producers favored the 51 million acre base or the national allotment for the crop year 1957 and subsequent years. In this referendum only 61 percent of the producers voted for the 51 million base acreage program and, therefore, the national allotment of 37.3 million acres became effective for the year 1957.

Under the 1957 ARP, producers placed 5.2 million acres in the soil bank at a total cost of approximately $196.4 million, or an average of $37.53 an acre. This higher average rate for 1957 is due entirely to higher acre yield, as the unit rate per bushel was 90 cents for 1956 and 1957.

The staff desires to point out that, had the producers voted in favor of corn base acreage, they would have had to place in the soil bank 13.7 million acres to reduce planted acreage in compliance with the national allotment of 37.3 million acres. Since the Soil Bank Act restricts payments for corn to $300 million during any one year, producers could not have placed more than 8 million acres in the ARP. This would have meant that planted acreage in compliance would have been at least 43 million acres, even with the expenditure of $300 million, whereas under the national allotment program it was 32.1 million acres with an expenditure of $196.4 million.

2. National corn rate (90 cents per bushel)

The staff previously reported that according to the USDA the national rates of payment under the ARP are designed to offset the loss of net income when farmers put acres in the soil bank and take them out of production—in simple terms, to make up the difference

between out-of-pocket production costs and sales price. The rate paid per acre is based upon a base unit rate multiplied by the yield per acre for the commodity involved.

In 1956 the national support price for corn was $1.50 per bushel and the national average ARP rate was 90 cents per bushel. In other words, the theoretical selling price for corn was $1.50 per bushel, the theoretical cost to produce this corn was 60 cents, and the theoretical loss of net income to the farmer was 90 cents per bushel. On November 14, 1956, the Secretary announced that the national average support price for corn produced within acreage allotments in 1957 would be $1.36 per bushel. On October 2, 1957, the Secretary announced a new compliance rate on 1957 crop corn of $1.40 per bushel, or an increase of 4 cents per bushel.

Although the national support price for corn in 1957 was originally 14 cents less than it was in 1956, and since the Soil Bank Division announced that the 1957 ARP base rate of 90 cents per bushel would be retained, the staff requested the Soil Bank Division to comment as to why this rate was retained although the theoretical selling price for corn was lower in 1957 than in 1956.

By memorandum dated October 30, 1957, the Production Adjustment Division of CSS supplied the following information:

> There was no "corn base acreage" in effect on the 1957 acreage reserve program similar to that in effect for the 1956 program. The corn base acreage for the commercial corn area for 1956 was 51 million acres. Farmers voted against a continuation of the corn base acreage concept in the December 11, 1956, referendum. Hence, any acreage placed in the 1957 acreage reserve had to be deducted from their portion of the 37.3 million acre national corn acreage allotment.
>
> To meet a corn goal of 4.5 million to 5.5 million acres for the 1957 acreage reserve program it was necessary, therefore, to provide an increased incentive to producers to reduce their already small acreage allotments further by placing corn acreage in the 1957 acreage reserve. Even with the 90-cent rate, the maximum 1957 goal was not reached as only 5.2 million acres of corn allotment land was placed in the acreage reserve. In establishing the 90-cent rate for the 1957 acreage reserve program consideration also was given to weather conditions, indications of farmers' intentions to plant, economic trends, etc.

The staff questions the validity of the above explanation, particularly in view of a press release made by the USDA on November 14, 1956, in which the Secretary announced price support and related corn program determinations. These determinations were:

> 1. If the base acreage program is approved, 51 million acres, price support will be available in the commercial counties at a national average of $1.31 per bushel.
>
> 2. If the acreage allotment program is approved, 37,288,889 acres, price support will be available in the commercial counties at a national average of $1.36 per bushel. This price support level is determined by the formula of the law which applies when acreage allotments for corn are in effect.
>
> 3. There are no plans to offer price support for 1957 corn production which is not in compliance with acreage allotment or soil bank provisions. Such noncompliance price supports were available in 1956 because of special conditions.
>
> 4. The unit rate for determining payments under the corn acreage reserve program of the soil bank in 1957 will be 90 cents per bushel, the same as for this year.

It may be seen from the above that, irrespective of whether the 51 million acre corn base or the 37.3 million acre national corn allot-

ment was in effect, the base rate for determining payments under the 1957 ARP would be 90 cents per bushel.

The staff further questions the statement made by the USDA to the effect that the 90-cent rate for the 1957 corn ARP also gave consideration to weather conditions, indication of farmers' intentions to plant, economic trends, etc. The factor of weather was given consideration in computing yields for a particular county and for the farms within that county. It is difficult for the staff to understand how such factors as planting intentions and economic trends could be weighted in establishing the 90-cent rate. The staff questioned the national rate of 90 cents in 1957 because it appeared to be out of line, not only with a support price of $1.36 per bushel, but also with the support price of $1.40 per bushel. Based on the latter figure and using the same theories that were utilized in 1956, an equitable average rate would have been 84 cents per bushel. The difference of 6 cents per bushel, when multiplied by the theoretical production purchased through the 1957 ARP program, would have saved $13,094,524.86.

B. COMPARISON ARP COMPENSATION WITH PRODUCTION

The summary of ARP participation by States is set forth in the following schedule which includes pertinent production data relative to corn for the years 1957, 1956, and the 10-year average, 1946–55:

Corn

State	Acreage reserve program	Production (1,000 bushels)			Yield per acre (bushels)		
		Indicated, 1957	1956	1946–55 10-year average	Indicated, 1957	1956	1946–55 10-year average
Alabama	$1,733,236	57,772	56,675	46,474	26.0	25.0	18.8
Arkansas	197,797	13,932	18,090	21,581	27.0	27.0	20.2
Delaware	865,346	4,320	9,750	6,248	30.0	65.0	40.5
Georgia	774,537	71,188	65,064	48,978	26.0	24.0	16.2
Illinois	18,543,720	529,664	592,416	481,137	64.0	68.0	53.5
Indiana	16,959,232	262,550	293,508	239,414	59.0	62.0	51.6
Iowa	34,218,804	615,164	533,551	544,574	60.5	53.0	50.6
Kansas	5,986,501	44,283	32,067	58,182	29.0	21.0	24.2
Kentucky	7,545,694	64,739	84,456	76,995	41.0	46.0	35.6
Maryland	1,185,326	15,176	28,620	21,134	33.5	60.0	44.1
Michigan	8,017,030	91,278	102,204	71,714	49.5	51.0	41.2
Minnesota	9,262,643	327,192	329,705	245,618	56.5	57.5	45.1
Missouri	20,407,291	151,052	189,408	147,613	44.0	48.0	35.8
Nebraska	32,746,097	222,300	116,864	207,417	45.0	22.0	29.2
New Jersey	1,202,922	4,756	12,032	8,827	29.0	64.0	47.0
North Carolina	2,768,205	60,125	80,688	64,145	32.5	41.0	29.4
North Dakota	176,867	34,528	31,872	25,202	26.0	24.0	20.8
Ohio	14,412,792	180,522	215,700	190,334	54.0	60.0	53.0
Pennsylvania	2,792,570	53,449	71,736	61,817	43.0	56.0	46.3
South Dakota	5,822,823	129,855	105,952	104,544	33.0	28.0	26.8
Tennessee	3,001,755	45,229	55,770	58,540	31.0	32.5	28.8
Virginia	661,518	21,120	39,456	37,018	26.5	48.0	37.8
West Virginia	83,412	6,216	8,500	9,512	42.0	50.0	40.2
Wisconsin	7,051,755	157,072	167,140	129,429	58.5	61.0	50.4
Total, acreage reserve program States	196,417,873	3,163,482	3,241,224	2,906,447			
Nonacreage reserve program States	0	239,350	214,059	214,034			
Total corn States	196,417,873	3,402,832	3,455,283	3,120,481	46.8	45.7	37.8

From a review of the preceding schedule, it will be noted that, despite the payment of approximately $196 million to corn producers, the 1957 corn production was estimated to be 3.4 billion bushels. This is only 2 percent below last year's record production and about 9 percent above the average for the previous 10 years.

According to the annual crop summary, December 1957, while the acreage trend for corn has been downward for over a decade, yields have increased sharply in response to the heavy use of fertilizer and other improved agricultural practices. The new record yield of 46.8 bushels per harvested acre exceeds the previous record of 45.7 bushels in 1956 and is far above the 10-year average of 37.8 bushels. The 1957 acreage generally was planted late because of wet fields and flooded lowlands. The crop matured late and was vulnerable to frosts which, fortunately, did not occur until after most of the crop was safe. However, continued rains and cloudy weather during the normal October-November harvesting season prevented much of the corn from drying to a moisture content safe for cribbing. Important quantities remained for harvest after December. Loss from shelling during harvest was low because of high moisture content, but more ears dropped to the ground than usual. Farmers are attempting to feed the high moisture corn as soon as possible to minimize spoilage in storage. Commercial and farm driers have been fully utilized. The production of corn for grain is estimated at 3,060 million bushels, compared with 3,090 million last year and the average of 2,812 million bushels.

The acreage of corn planted for all purposes, at 74 million acres, was well below the 78.2 million acres last year and the 83.9 million average. The decline in acreage is largely attributed to the 5.2 million acres of corn allotment placed in the acreage reserve in commercial corn counties. However, with less abandonment and less diversion to silage and forage than in most recent years, the estimated acreage harvested for grain at 64 million is but 1.3 million acres less than in 1956.

Although not mentioned by the crop summary, it is pointed out that, in 1956, there was approximately 5.3 million acres of corn allotment placed in the acreage reserve in commercial corn counties out of a national corn base of 51 million acres. It is to be further pointed out that in 1956 the national corn allotment was 43.3 million acres, whereas the 1957 allotment is approximately 6 million acres less.

C. NONCOMPLIANCE IN CORN PROGRAMS

The Government's price-support programs for wheat, cotton, rice, and tobacco contained provisions for the proclamation and enforcement of marketing quotas. These quotas were in effect in 1957. Generally, penalties are assessed for producers of the above-mentioned commodities who exceed the acreage allotments on the farm involved. The price-support program for corn has no such limitation.

Although a national corn allotment of 37.29 million acres was established in 1957 for producers in the commercial corn counties in 24 States, the total estimated harvested acreage of corn in the Nation as of December 17, 1957, was 72,656,000 acres. This is approximately 3 million acres less than the 75,634,000 acres harvested in

1956 and approximately 9.8 million acres less than the 10-year average of 1946–55. This figure is to be compared with the national allotment of 37.29 million acres, less the acreage placed in the ARP of 5.23 million acres, or a balance of 32.06 million acres.

Of the total harvested acreage in the country in 1957, 7.62 million acres occurred in counties in 24 noncommercial corn States, and the balance of 65.03 million acres was grown in the 24 States which had a net allotment of 32.06 million acres. The schedule on the following page shows the 1957 allotment for each State comprising the commercial corn area, the 1957 ARP acres, and the net balance of the national allotment. In addition, there is reflected the harvested acreage for the States involved.

Comparison, corn allotment acres versus harvested acres

State and commercial corn area	1957 State acreage allotment	1957 acreage-reserve program acres	Balance allotted acres	Harvested acres 1957
Alabama	303,314	58,774	244,540	2,222,000
Arkansas	87,706	8,698	79,008	516,000
Delaware	108,971	18,937	90,034	144,000
Georgia	378,147	40,903	337,244	2,738,000
Illinois	5,857,909	400,097	5,457,812	8,276,000
Indiana	3,016,533	357,472	2,659,061	4,450,000
Iowa	6,862,686	767,514	6,095,172	10,168,000
Kansas	905,079	246,867	658,212	1,527,000
Kentucky	909,810	207,540	702,270	1,579,000
Maryland	263,825	26,780	237,045	453,000
Michigan	995,695	179,681	816,014	1,844,000
Minnesota	3,436,176	236,214	3,199,962	5,791,000
Missouri	2,381,250	546,491	1,834,759	3,433,000
Nebraska	4,172,390	1,202,897	2,969,493	4,940,000
New Jersey	104,900	23,718	81,182	164,000
North Carolina	850,262	82,635	767,627	1,850,000
North Dakota	71,182	7,732	63,450	1,328,000
Ohio	2,156,784	277,979	1,878,805	3,343,000
Pennsylvania	582,079	59,666	522,413	1,243,000
South Dakota	1,948,675	222,053	1,726,622	3,935,000
Tennessee	458,135	96,273	361,862	1,459,000
Virginia	123,548	15,496	108,052	797,000
West Virginia	15,835	2,009	13,826	148,000
Wisconsin	1,297,998	147,052	1,150,946	2,685,000
Total commercial corn area	37,288,889	5,233,478	32,055,411	65,033,000
Total noncommercial corn area				7,623,000
Total	37,288,889	5,233,478	32,055,411	72,656,000

A review of the preceding schedule indicates that, although Iowa had a net corn allotment of approximately 6.1 million acres, the harvested acreage for the State was 10,168,000 acres, or approximately 4 million acres grown in excess of its net allotment.

In Nebraska, after placing 1.2 million acres in the ARP and having a net allotment balance of 2.9 million acres, the State harvested roughly 5 million acres of corn. The schedule also indicates that Illinois harvested 8.3 million acres of corn, although its State allotment was 5.8 million acres and 400,000 acres had been placed in the ARP.

The schedule futrher indicates that the State of Alabama harvested approximately 7 times its original allotment, as did Georgia; North Dakota harvested 18 times its original allotment. It can be seen from the schedule that the allotment established for the commercial corn area within any given year bears no relation to the amount of corn acreage grown in any given year.

With respect to the total corn harvested in the noncommercial States, 7.62 million acres, the largest harvested acreage of this total occurred in Texas, where 1.7 million acres were harvested, and Mississippi, where 1.5 million acres were grown.

The staff, in its 1956 report, stated that producers in Illinois advised that the Government actually subsidized noncompliance in conducting its corn-price-support program. They explained that in 1956 the national support rate for corn was $1.50 per bushel for complying producers, and $1.25 for noncomplying producers. It was reported that these objectors to such rates stated that the difference of only 25 cents between noncompliance and compliance merely fostered the increased production of corn. They further pointed out that, as the complying group took acreage out of production, the noncomplying group picked up the slack by increasing their production approximately to the same degree as cooperators with the program cut back. This they could afford to do, because of the small difference in the two rates and parlaying the lower rate against unrestrained production.

On November 14, 1956, the national average support rate for corn produced within acreage allotments in 1957 was announced as $1.36 a bushel. There was no noncompliance rate until September 20, 1957, when the Secretary announced the noncompliance rate to be $1.10 a bushel. On October 2, 1957, the Secretary announced a new compliance rate on 1957 crop corn of $1.40 a bushel, and restated the noncompliance rate of $1.10 a bushel. On the same date he announced the rate for corn produced in the noncommercial corn producing areas as $1.27 a bushel. In his press release, he stated that the increase of 4 cents in the compliance rate resulted from an increase in the parity price for corn since November 14, 1956. The result of these actions was a spread of only 30 cents between the complying and noncomplying rates for corn.

Since there is no cross-compliance under the Government's corn price-support program or under the corn ARP program, a corn producer being fortunate enough to have more than one farm operating as an independent unit could participate in the price-support program by placing one of his farms under price support and complying with his acreage allotment. He would then be eligible to place corn under loan at the the national average rate of $1.40 a bushel. He might also desire to participate in the ARP on this farm and place acreage within his allotment in the program. He would receive a national average rate of 90 cents a bushel times the normal yield for the acreage involved. On his second or other farms he could overplant his allotment and receive a support price of $1.10 a bushel. In doing so, on the second or other farm he could compensate for the acreage he reduced on the first farm by overplanting an equivalent amount on the second unit.

The staff can see the validity of the objections raised by producers in Illinois relative to the small difference between the complying and the noncomplying rates. It may be this small difference between the two rates would be one of the reasons which would account for the fact that, although $196 million was obligated under the 1957 ARP for corn, the 1957 corn production totaled 34.02 million bushels, compared to 34.55 million bushels in 1956 and 31.20 million bushels for the 10-year average.

D. IOWA

1. Participation

As it had been in 1956, Iowa was the largest participant in the ARP for corn in 1957. In 1957, Iowa producers executed 37,271 corn ARP agreements covering 767,514 acres for maximum compensation of $34,218,804. The corn acreage placed in the ARP in 1957 was approximately 11.3 percent of the State's total corn allotment of 6,862,686 acres. In 1957 there were 15 contracts in excess of $10,000, the highest contract providing for payment of $16,670. In addition, there were 90 contracts that ranged from $5,000 to $10,000 and 402 contracts in the $3,000 to $5,000 range. All other contracts provided for payments of less than $3,000.

In March 1957, ASC officials in Iowa advised that the participation in ARP would be low in 1957 because of the impact of the small national corn allotment of 37.3 million acres. These officials considered Iowa's share of the national allotment too low to obtain widespread compliance with the program. During 1957 only 29 percent of corn producers planted within their allotments and only 17.5 percent of the producers participated in ARP.

The State administrative officer, Coldren C. Glenn, and the soil-bank specialist, Leo Sturgeon, both gave the low allotments as the major reason for the reduction in participation in ARP as compared to 1956. They pointed out that the producers felt they could not grow enough corn for their needs under the reduced allotments. Thus, many farmers overplanted their allotments and could not participate in ARP. This point of view is further supported by statistical data furnished by the Grain Division, USDA, which disclosed that in 1957 only 11.6 percent of the total corn production was grown on farms that complied with their allotments. In 1956, 26.6 percent of the corn production was grown on complying farms. The greater compliance in 1956 was due to the higher allotments (8.2 million acres) and the corn-base acreage, which together totaled 9.6 million acres, as compared with the corn allotment of 6.86 million acres in 1957. This encouraged greater compliance in 1956 and permitted participation in the ARP without reduction of planted acreage.

2. Production

Despite the fact that 767, 514 acres were placed in the ARP in Iowa during 1957, its estimated production of 615,164,000 bushels was a record high for the State. This production is to be compared with last year's of 533,551,000 bushels and a 10-year average of 544,574,000 bushels, it being noted that in 1956 a severe drought was experienced in western Iowa.

At the same time Iowa was enjoying this record production of corn, it also produced substantial quantities of soybeans and sorghums. These two commodities also reflected sharp increases in production in 1957. The production history of these two commodities as well as corn is as follows:

Production

[In thousands of bushels]

Year	Corn	Soybeans	Sorghums
1957	615, 164	72, 592	13, 860
1956	533, 551	50, 000	3, 240
1946-55 average	544, 574	38, 190	53

The above production was the result of harvesting the following acreages of the three commodities in 1957 and prior years:

Harvested acreage

[In thousand of acres]

Year	Corn	Soybeans	Sorghums
1957	10, 168	2, 792	308
1956	10, 067	2, 500	81
1946-55 average	10, 740	1, 742	2

As noted previously, corn production is well above the average and the yield per acre was 7.5 bushels higher in 1957 than in 1956. The soybean production has also gone up with an increase of 6 bushels in the yield per acre. The acreage planted in sorghums more than tripled between 1956 and 1957, and the estimated production was four times higher in 1957 than in 1956. However, there was almost universal belief among the responsible ASC officials interviewed in Iowa that the sorghum crop would not meet expectations. Staff members were advised early in December 1957 that because of the excessive moisture, a good part of the sorghum crop had not been harvested and probably would be left in the field. ASC officials felt that because of this experience, sorghum production would be considerably lower in 1958. Farmers will probably reduce their sorghum acreage and increase their corn or soybean plantings. The State soil-bank specialist estimates that sorghum production in 1958 will be less than 50 percent of the 1957 production.

It has been noted that, in 1956, 26.6 percent of the corn production in Iowa was on complying farms while in 1957 only 11.6 percent of the corn production came from complying farms. Question was raised to the reasons for this reduction in the proportion of producers who planted within their allotments. Almost all persons interviewed attributed some of this reduction in compliance to the low corn allotments. In 1956 some producers mentioned the low allotments as a reason for nonparticipation in the soil bank. In 1957, allotments were even lower and fewer producers stayed within their allotments.

The staff also explored the possibility that the noncompliance rate for corn might have encouraged overplanting with a resultant reduction in participation in the ARP. The office managers in Polk and

Dallas Counties, who were interviewed, as well as the State soil-bank specialist, felt that many farmers who overplanted would not have done so if they hadn't anticipated establishment of the noncompliance price. Mrs. Irene Anderson, office manager of Dallas County, mentioned that the farmers—even some who overplanted—were opposed to the noncompliance low support price. Producers were beginning to feel that the man who stayed within his allotment was a "sucker." The State ASC administrator, Mr. Glenn, felt that in 1957 the noncompliance price may have been one factor in encouraging producers to overplant their allotments. However, the Secretary has issued noncompliance support prices for 2 years and the feeling is that the noncompliance price will be a major factor in encouraging noncompliance in 1958.

This attitude was not seconded by Mr. Joe Garber, a member of the State ASC committee, who felt that the noncompliance rate would not necessarily encourage farmers to exceed their allotments. Mr. Garber stated that farmers could make as much money from sorghums and thus perhaps might not exceed their allotments. Of course, others have advanced the opinion that sorghum production would go down because of the dampness that curtailed harvest of sorghums in 1957. This would hardly encourage producers, who can get a noncompliance rate for corn, to plant other crops whose previous harvest history has been poor.

Various persons interviewed also stated that because of the excessive moisture, corn was selling at prices considerably lower than the noncompliance price of $1.03 a bushel in Iowa. In order to obtain either the price support or noncompliance price, the corn must be dry and ready to be "sealed" in storage bins. Because of the damp weather, harvest had been delayed (in December 1957 there was still unharvested corn in the fields) and the corn was too damp to seal. The soil bank specialist stated that he was aware of corn available at the farm for 82 cents a bushel. Mr. Max Soeth, chairman of the State ASC Committee, mentioned that he had heard of corn that could be purchased for 43 cents a bushel because of the high moisture content.

E. NEBRASKA

1. Participation

The second ranking participant in the 1957 corn ARP was Nebraska. Producers in this State executed 45,220 corn ARP agreements, covering 1,202,897 acres of land with maximum compensation of $32,746,097. This acreage was approximately 28.8 percent of Nebraska's total corn allotment of 4,172,390 acres. In March 1957, the staff was informed that the continued drought in that State caused heavy participation in the 1957 corn ARP. Although the 1957 ARP participation was 235,000 acres less than in 1956, the payments in 1957 were about equal to the payments made in 1956.

2. Production

Nebraska, while producing substantial quantities of corn, also produces relatively large quantities of wheat and sorghums. Production data for these three commodities for 1957, as well as for prior years, is set forth below:

Production

[In thousands of bushels]

Year	Corn	Wheat	Sorghums
1957	222,300	78,821	77,337
1956	116,864	64,698	12,446
1946–55 average	207,417	79,801	4,213

As indicated above, the corn production for 1957 was almost 15 million bushels in excess of the 1946–55 average and substantially higher than the 1956 production, which was curtailed drastically because of the severe drought in the State. Wheat production was 1 million bushels below the 10-year average and higher than the 1956 production which was affected by the drought in that year. With respect to wheat, it is to be noted that Nebraska producers received approximately $11 million for placing 495,000 acres in the wheat ARP. Sorghum production in 1957 was 6 times the 1956 production and 19 times the 10-year average. The production of sorghums indicates the results of an increase in planted acreage of approximately 1.1 million acres in 1957 over 1956 and approximately 2 million acres in excess of the 10-year average 1946–55. The total production in 1957 was substantially higher than the drought year 1956, but it was also 87 million bushels in excess of the 10-year average for these 3 commodities.

The staff visited Nebraska in the first part of May 1957 and, therefore, did not have an opportunity to discuss the operations of the 1957 ARP with officials, because the program was just getting underway and no production data was available. In addition, the primary purpose of the staff's visit to the State was to determine the extent that federally leased land was being placed in the soil bank. The results of this investigation are set forth subsequently in this report. The staff deemed it significant to combine the ARP participation of Iowa and Nebraska and compare participation with production data for 1957 and prior years. A combination of the data for the two States is as follows:

State	Acreage-reserve program	1957 production	1956 production	1944–55 average
	Dollars	*Bushels*	*Bushels*	*Bushels*
Iowa	34,218,804	615,164,000	533,551,000	544,574,000
Nebraska	32,746,097	222,300,000	116,864,000	207,417,000
Total	66,964,901	837,464,000	650,415,000	751,991,000

A review of the above indicates that the 2 States executed agreements totaling $67 million in corn ARP funds, or more than one-third of the total funds obligated under the program. The figures further indicate that the corn production of these 2 States in 1957 was 187 million bushels in excess of the 1956 production, and approximately 85 million bushels in excess of the 10-year average production from 1946 to 1955. In comparing these figures, it should be noted that throughout Nebraska and in western Iowa the severe summer

drought in 1956 curtailed the corn crop. However, the staff deems it significant to note that the 1957 production was considerably above the 10-year average, despite the fact that approximately $67 million was spent in these 2 States to curtail production. One prime factor in accounting for this paradox was the corn yield per acre harvested in both these States. In 1957 the corn yield per acre harvested in Iowa was 60.5 bushels to the acre, compared with 53 bushels in 1956 and 50.6 bushels for the 1946–55 average. This increase in yield in 1957 was approximately 15 percent of the 10-year average. The 45-bushel yield in Nebraska for 1957 is a record and is to be compared with the 22-bushel yield an acre for 1956 and a 10-year average yield of 29.2 bushels. The rise in yield of approximately 59 percent in 1957 compared with the previous 10-year average was, according to the general crop report of October 1, 1957, partly due to expanded irrigation in the State.

In this regard a report submitted by the Nebraska Water Conference covering its meetings of February 28 through March 1, 1957, indicated that, in 1956, 4,000 new irrigation wells were added in the State, increasing the total irrigated land to about 2 million acres. The new wells added in 1956 represented an increase in irrigation wells of 25 percent.

IX. Upland Cotton

A. PARTICIPATION

In 1957, producers in 21 States executed 301,053 cotton ARP agreements covering 3,015,630 acres of land, and calling for maximum compensation of $153,296,122. This compensation represented approximately 70.5 percent of the amount allocated to cotton, and the acreage involved represented 17.15 percent of the total national upland cotton allotment. The agreements averaged $509.20 each, representing approximately 10 acres of land at $50.83 an acre.

B. COMPARISON ARP COMPENSATION WITH PRODUCTION

A summary of the participation by these States is set forth in the following schedule, which also includes pertinent production data relative to upland cotton for the years 1957, 1956, and the 10-year average 1946–55. In reviewing this schedule, it will be noted that the two largest participants were the States of Texas and Mississippi. The two smallest participants were Kansas and Maryland, with maximum compensation of $120 and $920, respectively. In regard to the latter, no production data is set forth in the Crop Reporting Board's cotton report of December 1, 1957, for these two States, apparently because their cotton production is insignificant.

Upland cotton

State	Acreage reserve program	Indicated 1957 production	1956 production	1946–55 10-year average production
		Thousands of bales	*Thousands of bales*	*Thousands of bales*
Alabama	$15,164,472	530	750	891
Arizona	6,212,338	755	802.4	601.6
Arkansas	10,508,899	985	1,426	1,444
California	7,465,034	1,499.5	1,445.8	1,248.8
Florida	792,785	10.2	13.5	20.4
Georgia	15,747,144	395	579	679
Illinois	6,193	1.3	2.8	1.8
Kansas	120			
Kentucky	69,244	5.4	10.2	9.5
Louisiana	8,465,689	370	581	606
Maryland	920			
Mississippi	17,207,662	1,160	1,609	1,702
Missouri	1,159,358	185	448	385
Nevada	76,037	3	2.3	1
New Mexico	1,480,160	225	294.1	246.9
North Carolina	7,235,108	235	359	449
Oklahoma	6,128,918	245	261	374
South Carolina	11,773,313	345	513	647
Tennessee	4,277,592	420	552	579
Texas	39,313,504	3,550	3,598.4	3,729.9
Virginia	211,632	8	12.1	16
Total	153,296,122	10,927.4	13,259.6	13,631.9

The Crop Reporting Board's cotton report as of December 1, 1957, forecast upland cotton production for the year to be 10,927,500 bales and American-Egyptian cotton production to be 82,500 bales, or a total cotton production of 11,010,000 bales. Total production of cotton for 1957 was 17.3 percent less than 1956 and 19.5 percent below the 10-year average, 1946–55.

A review of the crop reports for the months of August to December 1957 reflected the following forecast for cotton production by the Crop Reporting Board:

[In thousands of bales]

1957	Upland cotton	American Egyptian	All cotton
Aug. 1	11,801.5	95.5	11,897
Sept. 1	12,617.5	95.5	12,713
Oct. 1	12,308.5	92.5	12,401
Nov. 1	11,701.5	86.5	11,788
Dec. 1	10,927.5	82.5	11,010

In reviewing the above, it will be noted that upland-cotton production, as of September 1, was estimated to be 12,617,500 bales, whereas on December 1, the forecast was 10,927,500 bales, or a drop of 13.4 percent. American-Egyptian, as of September 1, was forecast as 95,500 bales, and the December 1 forecast reflected a drop to 82,500, or a reduction of 14 percent. All cotton production dropped from 12,713,000 bales as of September 1 to 11,010,000 bales as of December 1, or a drop of 13.4 percent. It is pointed out that the September 1

forecast took into consideration the amount of acres in cultivation as of September 1, which also automatically considered the amount of acres placed in the cotton ARP for the year. A review of the crop reports for the months of October through December reflected the cause for this reduction to be unfavorable weather.

The Board reported in the cotton report as of October 1, 1957, a forecast of approximately 12.4 million bales, down 2.5 percent, or 312,000 bales, from the previous month. The Board further reported that wet, cool weather during September reduced production in southeastern and central areas, which more than offset slight increases in Oklahoma and Texas.

The cotton report as of November 1, 1957, indicated a 1957 cotton crop of approximately 11.8 million bales, down 5 percent, or 613,000 bales, from October. The Board reported that cool, rainy weather beginning in September and continuing through October over most of the belt further delayed harvesting and maturity of the already late crop. It stated that unfavorable weather held maturity of bolls at a virtual standstill in many areas during the last 3 weeks of October.

The cotton report as of December 1, 1957, reported that cotton production for 1957 was estimated at 11,010,000 bales, down 6.6 percent from November, representing a reduction of 778,000 bales from the previous month. It further reported that most of the decrease in the forecast from the previous month was accounted for by a drop of 325,000 bales in Texas, 175,000 bales in Arkansas, and 130,000 bales in Mississippi, with some reductions also shown in 7 other States. Further details relative to the cotton production for the aforesaid three States will be set forth subsequently in this report.

C. FINDINGS BY STATES

In conducting its survey, the staff visited six States for the purpose of reviewing the operations of the upland-cotton ARP. The six States visited are set forth below, together with statistical data relative to the ARP participation, as well as production data for upland cotton for 1957 and previous years. It will be noted from a review of the schedule that 5 of the States participated to a substantial extent in the program, whereas Nevada had only nominal participation of approximately $76,000. Nevada was visited because, although their participation was nominal, the compensation of agreements executed averaged in excess of $10,000 each.

State	Acreage-reserve program		1957 production [1]	1956 production	1946–55 production
	Thousands of acres	Thousands of dollars			
			Bales	*Bales*	*Bales*
Nevada	1.1	76.0	3,000	2,300	1,000
Arizona	45.1	6,212.3	755,000	803,400	601,600
Arkansas	187.8	10,508.9	985,000	1,426,000	1,444,000
California	74.1	7,465.0	1,449,500	1,445,800	1,248,800
Mississippi	252.2	17,207.7	1,160,000	1,609,000	1,702,000
Texas	1,126.4	39,313.5	3,550,000	3,598,400	3,729,900
Total	1,686.7	80,783.4	7,902,500	8,884,900	8,727,300

[1] Dec. 1, 1957, estimate.

In reviewing the above schedule, it is to be noted that, from an acreage standpoint, the acres placed in the ARP for these States amounted to 55.9 percent of the total acres placed in the cotton program. The maximum compensation due to these States as a result of their participation represented 52.6 percent of the entire program. It is to be further noted that the estimated upland cotton produced by these States in 1957 was 72.3 percent of the total upland cotton produced in the country. The results of the staff's survey for each State follows with a separate section devoted to each State.

1. Nevada

(*a*) *Participation and production.*—Under the 1957 cotton ARP, 7 producers, out of a total of 20 who had allotments, placed 1,104 acres in the program, calling for maximum compensation of $76,037. These agreements ranged from $1,241.80 to $40,060.02 each, and averaged $10,862.35. In 1957 the estimated production for Nevada was 3,000 bales as of December 1, 1957, compared with 2,300 bales for the year 1956 and 1,000 bales for the 10-year average 1946–55.

(*b*) *Title III, Agricultural Act of 1956.*—Title III of the Agricultural Act of 1956, which established the soil bank, provided that the national marketing quota for cotton for 1957 and 1958 shall not be less than the number of bales required to provide a national acreage allotment for 1957 and 1958 equal to the national acreage allotment for 1956. As a result of this, the Secretary proclaimed a national allotment for upland cotton of 17,391,304 acres. However, due to other requirements of the Agricultural Act of 1956, the Secretary was required under title III of the statute to increase this allotment by 194,159 acres. Therefore, the total allotment for 1957 upland cotton was 17,585,463 acres.

Section 302 of the Agricultural Act of 1956 required that, if the apportionment to any State from the 1957 national acreage allotment was less than the 1956 acreage allotment by more than 1 percent, such apportionment must be increased so that the 1957 State acreage allotment would be 99 percent of the 1956 State acreage allotment. This requirement resulted in an increase of 94,159 acres.

Section 303 (a) of the Agricultural Act of 1956 provided that the national acreage reserve of 100,000 acres be apportioned among States on the basis of the estimated needs of each State for additional acreage to establish minimum farm allotments under section 344 (f) (1) of the act; the amount apportioned to Nevada was directed to be 1,000 acres. This national reserve was in addition to the 1957 national acreage allotment. It can be seen from this that the requirements of the act automatically rendered 194,159 acres eligible for soil-bank participation. Since the national rate of payment for cotton under the 1957 ARP was an average of $50.83, an expenditure of $9.9 million would be required to retire this acreage back to the original national allotment figure of approximately 17.3 million acres.

The effect of the application of the requirements contained in title III are readily apparent in an examination of Nevada's soil-bank participation. In 1956 the State had an allotment of 2,320 acres and, as a result of section 303 (a) of the Agricultural Act of 1956, this acreage was increased to 3,320 acres. As stated previously, Nevada producers retired 1,104 acres under the 1957 soil bank, or only 104 acres over the automatic increase granted to the State.

In apportioning the 1,000 acres to producers, the 7 participants in the soil bank received 650-acre increase in their total allotments. Of this, they placed 603 acres in the soil bank. The value of these which might be referred to as bonus acres placed in the soil bank amounted to $42,006.60. To the individual producer the bonus ranged from $1,241.80 to $16,675. In the latter instance, Diablo Farms executed agreement No. 4 placing 600.6 acres in the soil bank out of a total allotment of 1,001 acres. The rate of payment per acre was $66.70, and the contract called for maximum compensation of $40,060.02.

Inquiry showed that, in 1956, this firm had an allotment of 751 acres. In 1957, in view of the 1,000-acre increase in the State, this firm's share was 250 acres. Therefore, out of a total payment of $40,060.02 this 250-acre increase valued at $66.70 an acre amounted to $16,675.

The net effect of the operation of the increase in allotment provided by statute and the participation in ARP was a net reduction of 104 acres for which 7 Nevada cotton producers received $76,037.

2. Arizona

(*a*) *Participation.*—Arizona producers executed 1,004 1957 upland cotton ARP agreements, placing in the reserve 45,067 acres of land calling for compensation of $6,212,338. This participation represented 55.9 percent of the $11,122,700 allocated to the State for the 1957 ARP. The acreage involved represented 12.5 percent of Arizona's share of the national allotment; namely, 360,892 acres. The average agreement amounted to 44.9 acres and called for an average payment of $6,187.59.

(*b*) *Production.*—Arizona's upland cotton production as of December 1, 1957, was estimated to be 755,000 bales, compared to 802,400 bales in 1956 and 601,600 bales per year for the 10-year average, 1946–55. Its total production for 1957, including 45,000 bales of American-Egyptian cotton, was 800,000 bales. It is to be noted that the crop reports for August through October indicated that the State's total cotton production would be 830,000 bales. However, the cotton report of November 1, 1957, indicated that this production would be 30,000 bales less. The cotton report of November 1 indicated that rains and storm damage in New Mexico and Arizona reduced prospects for production in both States. Arizona's yield per acre harvested for 1957 was estimated at 1,097 pounds, slightly less than the 1956 yield, but 379 pounds more per acre than the 1946–55 average.

The staff's survey in Arizona included visits to three counties in which the ARP participation was centered in the State. These were Pinal, Pima, and Maricopa Counties, whose combined participation amounted to approximately $5.3 million out of the total State program of approximately $6.2 million. The staff's findings follow.

(*c*) *Pinal County*—(1) *Former administration of ASC programs.*—The staff ascertained that, in November 1956, several cottongrowers in this county alleged to the United States attorney, Phoenix, Ariz., that certain favored cottongrowers in Pinal County were being allowed to plant and harvest cotton in excess of their acreage allotments. Upon the request of the United States attorney, the Compliance and Investigation (C. and I.) Division of CSS in December 1956 instituted an investigation of the programs being administered by the Pinal County ASC office.

On the basis of facts developed by C. and I. the United States attorney presented the matter to the United States grand jury in January and in June 1957. As a result of this action, the grand jury returned indictments against John Beggs, former chairman; Henry Haley, former vice chairman; Joseph Short, former county office manager; and V. Edwin Morris, Jr., former county office employee, all of whom represented the Pinal County ASC administration. In addition, the grand jury indicted four cottongrowers.

The indictments charged the aforesaid individuals with falsifying Government documents, and receiving and giving of bribes. The trials relative to this matter were scheduled for October 1957; however, as this report is being written, the matter is still pending prosecution in the United States district court, Phoenix, Ariz. For this reason no further information is being set forth relative to the matter.

(2) *Large contracts.*—A review of the county records showed that 6 cotton contracts were executed calling for compensation in excess of $50,000. These 6 contracts totaled approximately $546,000 out of a total county program of approximately $2.6 million, or roughly 20 percent of the value of the 273 agreements executed in the county. The pertinent details of these large contracts are as follows:

Agreement Number	Operator	1957 allotment	Acreage-reserve program acres	Compensation
11	John F. Nutt, Blackland Farms [1], Ranch Tierra Prieta [1]	1,433.5	1,433.5	$207,857.50
65	Farmers Investment Co	1,714.3	514.3	74,573.00
317	American Christian Institute	553.7	553.7	73,088.40
51	Sherrill & LaFollette	1,508.9	452.7	71,526.60
110	Glen H. Shay	421.2	421.2	66,549.60
101	Chui Chiuschu Ranches, Inc	564.4	282.2	51,924.80
	Total	6,196.0	3,657.6	545,519.90

[1] John F. Nutt is also president of these organizations.

With respect to the above contracts, Stanley Snitzer, vice chairman, Pinal County committee, stated that, in his opinion, the ARP funds purchased production but not one of the above producers entered the program for the purpose of reducing cotton surplus. He said for years these large producers desired to rearrange and level their land, but they were unable to do so because they could not afford to take the land out of production. He said that the ARP furnished them with a golden opportunity to do this and still get paid their profit margin for the cotton which they would have produced. He said it was his opinion the improvement resulting from rebuilding the land would be reflected in increased cotton production in 1958.

(3) *Casa Grande Valley Country Club.*—While in Arizona in September 1957, the staff was informed that the Casa Grande Country Club received a cotton allotment for 1957 despite the fact that no cotton had been planted on the land for the 3-year period 1954 through 1956. It was also alleged that this land had been placed in the 1957 ARP.

Officials of the Pinal County ASC office advised that the soil-bank file relative to this land was not available, since it was in the hands of the United States attorney at Phoenix, Ariz., who was handling the prosecution of the former officials of the county committee. The staff was further informed that the activities of the officials of the county committee in connection with the country club allotment were presented to a Federal grand jury which failed to return an indictment.

The Soil Bank Division, Washington, D. C., advised that the country club executed agreement No. 326 on April 27, 1957, placing 22.5 acres of land in the 1957 cotton ARP and calling for maximum compensation of $2,362.50. In addition, the CSS, under date of November 27, 1957, furnished a memorandum setting forth the background of this agreement and the details relative to its cancellation. The pertinent sections of this memorandum are set forth below:

> In February of 1957 it was ascertained by a representative of the southwest area office that a 1957 cotton acreage allotment had been established for land owned by the Casa Grande Valley Country Club. A review of the farm's history disclosed that although cotton had been planted on the land in earlier years, no cotton was in fact planted on this land in 1954, 1955, or 1956. Accordingly, it was determined that the country club was not eligible for a 1957 cotton acreage allotment and a revised notice was, in February 1957, mailed to the country club advising that its allotment had been reduced to zero. Subsequently, in April 1957, representatives of the country club met with the Arizona State ASC committee regarding this matter and it was the opinion of the State committee that the country club was entitled to an allotment. Accordingly, on the basis of a letter from the Arizona State office to the Pinal County committee, another revised notice was mailed to the country club advising that it was given an allotment of 22.5 acres. On April 27, 1957, the country club entered into a 1957 cotton acreage reserve agreement which was approved by the county committee on April 29, 1957. The authority to accept an acreage reserve agreement in certain instances after the closing date is contained in section 485.227 of the 1957 acreage reserve regulations.
>
> * * * * * * *
>
> Upon further consideration as to the eligibility of the country club for a 1957 cotton acreage allotment, it was determined that the country club definitely was not entitled to an allotment and it was therefore reduced to zero by the Pinal County committee on October 11, 1957. Accordingly, there is no basis on which acreage could be placed in the acreage reserve by the country club and no soil-bank payment has been or will be made.

(*d*) *Large payments—Pima County.*—The staff's inquiry included an examination of the operations of the Pima County ASC office. This office administers the ASC programs, including the ARP, for Pima and Santa Cruz Counties. A recapitulation of the ARP participation for both counties is as follows:

	Pima	Santa Cruz	Total
Acreage-reserve program agreements	38	15	53
Acres placed in acreage-reserve program	4,088.8	1,148.7	5,237.5
Total compensation	$524,815.90	$130,664.60	$655,480.50

Mr. R. P. Inskeep, office manager of the Pima-Santa Cruz Counties ASC office, advised that the participation in Pima County was primarily caused by a cotton disease known as "wilt" which appeared in Pima County. He stated that the ARP participation enabled the producers to combat this disease and rehabilitate their soil for future

production. He said, however, there was very little "wilt" in Santa Cruz County.

Mr. Inskeep provided the staff with copies of all contracts executed by producers calling for payments in excess of $50,000. Since 1 of these producers executed 2 contracts, 1 of which was less than $50,000, it is included in the subsequent schedule in order to show the full amount of compensation due this producer for his participation. The contracts and the pertinent data are as follows:

Name	Allotment	Acres placed in reserve	Rate	Compensation paid
Harris Ranches, Inc.	1,666	1,666	$126	$209,701.80
Harris Ranches, Inc.[1]	38	38	139	5,282.00
E. R. Clark & Sons and Baca Float Ranch, Inc.	650	650	121	78,650.00
Bing K. Wong	1,500	450	126	56,700.00
Total	3,854	2,804		350,333.80

[1] This producer identical with 1st producer listed.

In connection with the above contracts, the soil-bank agreement which was probably most highly publicized during the year was that involving Harris Ranches, Inc., of which Jack Harris is president. In view of the unusual nature of Mr. Harris' operations, the details of his agreements are being set forth.

(1) *Harris Ranches, Inc., Jack Harris, president.*—On February 27, 1957, Harris Ranches, Inc., Sahuarita, Ariz., executed agreement No. 47, placing 499.8 acres of a total cotton allotment of 1,666 acres in the 1957 ARP for maximum compensation of $62,754.30. On March 5, 1957, this contract was amended, increasing the acreage to the full amount of the allotment, or 1,666 acres. This amended contract called for maximum compensation of $209,701.80.

On February 27, 1957, Harris Ranches, Inc., executed agreement No. 48 placing in the 1957 ARP 11.4 acres of land at a rate of $139 per acre. On March 5, 1957, this contract was amended, increasing the acreage to the full amount of the allotment, or 38 acres. The amended contract called for maximum compensation of $5,282. A summary of the above information indicates the following pertinent information with respect to the two contracts:

Date	Agreement No.	Number of acres	Rate per acre	Maximum compensation
Mar. 5, 1957	47 amended	1,666	[1] $126	$209,701.80
Do	48 amended	38	139	5,282.00
Total		1,704		[2] 214,983.80

[1] 17 acres at rate of $113.40.
[2] Payment made June 24, 1957.

In addition to the above payments, Jack Harris, Inc., received $21,661 for participating in the wheat ARP in California.

The staff's inquiry showed that on March 15, 1957, or 10 days after the above-mentioned contracts were finally amended, Carl E. Teeter,

Arizona State administrative officer, advised the director of the southwest area, CSS, Washington, D. C., that the Pima County committee had heard rumors that this producer intended to acquire another farm in Maricopa County, Ariz., and plant over 4,000 acres of cotton in excess of the allotment.

Mr. Teeter pointed out in his memorandum that, if the rumors proved correct, there would be considerable criticism of the program and, therefore, advice was requested as to whether there was any provision in the program which would prevent such action on the part of the producer.

On March 20, 1957, Forest W. Beall, director of the southwest area, CSS, forwarded a letter to Mr. Teeter, the pertinent paragraphs of which are as follows:

> Under the regulations there is nothing you can do to prevent this operation provided the two farms are separate and distinct units under your farm definition.
>
> This is an unfortunate circumstance, but it appears there is nothing we can do to prevent it at this time.

On March 26, 1957, Mr. Teeter directed a memorandum to the Pima County ASC office which advised that, under the cotton programs, each farm stands alone. Under the ARP, performance on one farm covered by contract will be paid for regardless of plantings on other farms of the operator. He stated that the Arizona State office had been informed by Washington that the regulations do not support disapproval of a contract on one farm because of overplanting on another. He further advised that, under Commodity Credit Corporation loan provisions, cotton produced on a farm without excess acreage is eligible, even though the operator has planted excess acreage on another farm, and production on the farm with excess acreage would not be eligible.

On October 21, 1957, CSS advised that the Maricopa County ASC Committee had established that the Jaresa Cotton Co., of which Jack Harris is president, had planted 4,639.5 acres of cotton on its farm. Since the firm did not have a cotton allotment on the farm, marketing quota penalties were levied. These penalties amounted to $965,595.94 based upon the establishment by the county committee of a normal yield for cotton of 1,125 pounds an acre at the penalty rate of 18.5 cents a pound.

Mr. Carl Teeter advised this staff that he was unfamiliar with the reasons why Harris would place land in the soil bank in one county at 14.3 cents a pound and then plant penalty cotton in another county at a penalty rate of 18.5 cents a pound. The Congressional Record of July 22, 1957, contained an item relative to Harris' activities which was published in the Fresno Bee for July 17, 1957. In replying to criticism levied against him by Congressman Udall, of Arizona, Harris was quoted as stating among other things:

> Make it plain that I'm against Government controls and supports. We ought to be able to compete on the world market.
>
> I was hoping this 4,500 acres I'm farming outside the program would show how silly the program is and how unnecessary it is.

He also advised the newspaper reporter in question that, based on the assumption that cotton would sell for 36 cents a pound and he paid 18.5 cents penalty, he would have a balance of 17.5 cents on which to operate. He said that he could just about do it, but that it would not

leave him any profit. He further explained that since he was also a cotton ginner, he would make money ginning the cotton.

Section 485.232 of the soil-bank regulations, which was in effect during 1957, and the language of which was set forth also in the 1956 ARP regulations, states:

> No producer entering into an agreement with the Secretary hereunder shall employ any scheme or device which would tend to defeat the purpose of the agreement.

A question was directed to the Soil Bank Division as to why section 485.232 did not apply in this matter. On December 2, 1957, CSS furnished a memorandum with respect to the above question, the following pertinent portions of which are set forth:

> The Soil Bank Act, while providing for compliance with allotments on the farm covered by an agreement, does not require cross compliance as among farms.
>
> In formulating the terms and conditions of the acreage-reserve program, the Department gave consideration to the inclusion of a provision which would have required a producer who entered into an acreage-reserve agreement covering one farm to comply with acreage limitations for other farms in which he had an interest. It was decided not to adopt such a requirement due to the administrative difficulty of policing such a provision. The soil-bank program, as well as the acreage-allotment and marketing-quota programs, is administered at the local level by county ASC committees operating in each county, whereas producers may have interests in farms located in different counties or different States. It was, therefore, decided that each farm would stand on its own and that the activities of a producer on one farm would not affect his right to payment under an acreage-reserve agreement covering another farm.
>
> Having considered specifically the question of cross compliance as among farms, and having decided not to adopt such a requirement, the Department did not intend the general provision in section 485.232 against schemes or devices to apply to such cases.
>
> As a result of the activities of Mr. Harris, it was decided in formulating the 1958 acreage-reserve program to adopt the specific provision in section 485.328 of the 1958 regulations to prevent the recurrence of a similar situation.
>
> It should be noted that a marketing quota penalty of $965,595.94 has been paid with respect to the excess cotton produced on the Maricopa County farm. Such a penalty would in most cases be sufficient to deter production of excess cotton.

The Soil Bank Division also provided this staff with the regulations for the 1958 ARP. The language of section 485.328 relative to schemes or devices to defeat purpose of agreement is as follows:

> No producer entering into an agreement with the Secretary hereunder shall employ any scheme or device which would tend to defeat the purpose of the agreement. It shall be considered a scheme or device to defeat the purpose of the agreement for a producer having an agreement for a commodity on one farm to exceed the allotment for the commodity on another farm if he exceeds substantially the acreage normally devoted to the commodity on such farm.

A review of this section compared with section 485.232 in the 1957 regulations indicates that the first sentence of the regulation is identical in both sections. However, under the 1958 regulations, a new sentence has been added as indicated previously. In commenting on the changes in this regard, CSS advised on December 9, 1957:

> This change is designed to deny compensation under an acreage-reserve agreement for the reduction of acreage of a commodity below the allotment if this reduction is being offset by substantially increasing the acreage of that commodity on another farm.

It seems to this staff that the 1957 regulations were explicit and should have precluded the Harris situation; however, it did not do so for the reasons advanced by CSS. A review of the 1958 regulations

in this regard indicates that the enforcement of the specific regulation depends upon the definition of the words "substantially" and "normally." It further seems that the problem of policing cross-compliance is still inherent in the new regulation. However, the effectiveness of the new regulation can only be judged by its application in next year's program.

(*e*) *Maricopa County.*—Producers in Maricopa County executed 362 agreements placing 14,730 acres in the 1957 ARP calling for maximum compensation of $2,225,882.50. Mr. Tom Beatty, office manager, advised that the cotton grown in his county was on irrigated land and there was no question in his mind but that the participation purchased an equivalent amount of cotton production.

He said that, in his opinion, producers participated because it gave them an opportunity to rebuild their land and, as a matter of fact, some of them in the fall of 1957 would plant this acreage in various crops, such as summer lettuce, barley, and sugar-beet seed, which would not mature or be harvested until late spring or early summer 1958. In other words, producers could comply with the ARP provisions if no crop was harvested from the land during 1957, but the regulations did not prohibit them from planting various crops on the land for harvest in a subsequent year.

Mr. Beatty advised that he was unaware of the Harris activities until the matter had been approved by the State and USDA officials, Washington, D. C. He stated the only matter referred to him directly was Maricopa County's responsibility in establishing the marketing quota penalties to be assessed with respect to the penalty cotton being grown in his country. In that connection it is to be noted that the penalty cotton being grown in Maricopa County was on land leased from Gila Enterprises, Inc., an operating company for the Gillespie Land & Irrigation Co., which owns the land. This land was leased to Jack Harris, who in turn subleased the land to the Jaresa Cotton Co., of which Mr. Harris is president.

A review of the contracts in the Maricopa County office reflected the following which were in excess of $50,000:

Agreement number	Operator	1957 allotment	Acreage-reserve program acres	Compensation
202	Estrella Land & Cattle Co	1,087	586.1	$96,706.50
329	B. F. Younger	2,290	550.0	82,500.00
	Charles F. Younger			
	Ben F. Younger, Jr.			
61	Stanley & McDaniel	420	420.0	69,300.00
37	Floyd N. Smith Co	390	390.0	64,350.00
	Dorothy E. Isabell			
133	Waddell Ranch Co	1,230	369.0	60,885.00
352	J. L. Hodges	1,100	399.5	59,925.00
	Total	6,517	2,714.6	433,666.50

3. Arkansas

(*a*) *Participation.*—Arkansas producers executed 18,888 ARP agreements, placing in the ARP 187,755 acres of land calling for maximum compensation of $10,508,899. This participation represented 50.8 percent of the $20,687,300 allocated to the State for the 1957 cotton

ARP. The acreage represented 13.3 percent of the total State allotment of 1,416,819 acres. The average ARP agreement was for approximately 9.9 acres and called for a payment of $556.44.

Generally speaking, the participation was the smallest in those areas where the most cotton is produced and highest where the least cotton is grown. As an example, Mississippi County, Ark., a heavy-production area with 183,294 allotted acres, placed only 4.6 percent in the ARP. Faulkner County, a low-production area with an allotment of 14,531 acres, placed 40.1 percent in the ARP.

Messrs. Clyde Lieblong and N. A. McGhee, State ASC officials, stated that the greatest participation was from farms with allotments of 15 acres or less. They stated this type of farm depends upon family labor, and the owners could readily participate in the program and find off-farm employment. They advised that generally the owners of large farms who are the heavy producers did not participate in the program, as these farms are highly mechanized and equipped for production and the producers are encouraged to produce by the ginners, lending agencies, and other persons interested in cotton production. They also felt that the farms with tenants are not likely to participate in the program, as both the owners and the tenants would receive more income by farming, particularly where the owners were apprehensive about losing tenants whom they might need at a later date. These officials, when interviewed by this staff in July of 1957, felt that it was too early in the year to make a definite assessment of the results of the soil-bank program in the State.

However, two instances were noted of large producers participating in the program. In Mississippi County, Lee Wilson & Co. signed a 1957 ARP agreement, No. 148–S, placing 820.9 acres out of a 4,048.8-acre cotton allotment in reserve for a total payment of $64,851.10. The county ASC manager advised that this farm is irrigated and the operators are constantly increasing the irrigated areas.

In Desha County, A. B. & W. M. Nickey signed 1957 ARP agreement No. 235 placing 527.5 acres of a cotton allotment of 591.9 acres in reserve and received compensation of $53,805. According to the ASC office manager, some of this land placed in reserve is being leveled for either drainage or irrigation.

(*b*) *Production.*—Arkansas' upland-cotton production was estimated as of December 1, 1957, to be 985,000 bales, a decrease of 441,000 bales as compared with 1956 and 459,000 bales below the 10-year average.

As indicated in the following schedule, it will be seen that the drop in production occurred primarily in October and November of 1957. The cotton reports for the months of September through December forecast the following production for the State:

	Bales
Sept. 1	1,285,000
Oct. 1	1,285,000
Nov. 1	1,160,000
Dec. 1	985,000

The cotton report as of November 1 indicated that, in Arkansas and Missouri, the maturity and picking of cotton was delayed by unfavorable weather and late October freezes which reduced prospective production. The cotton report as of December 1, 1957, indicated that extremely unfavorable weather continued to delay the cotton harvest

through November and, while not specifically stating that unfavorable weather was the sole cause of the reduction of 175,000 bales in Arkansas' cotton production from the previous month's estimate, it seems that unfavorable weather was the principal reason.

4. California

(*a*) *Participation.*—California producers executed 3,668, 1957 upland cotton ARP agreements placing in the reserve 74,087 acres of land calling for payments of $7,465,034. This participation represented 36.7 percent of the $20,333,200 allocated to the State for the 1957 cotton ARP. The acreage involved represented 9 percent of California's share of the national allotment, namely, 810,445 acres. The average agreement amounted to 20 acres and called for an average payment of $2,035.18.

(*b*) *Production.*—California's upland cotton production for 1957 was estimated to be 1,499,500 bales. This represents an increase of 3.7 percent over the prior year and 20.1 percent over the 10-year average. California's yield of all cotton per acre of 1,006 pounds represents an increase over the 924-pound yield of 1956 and a considerably greater increase over the average yield of 683 pounds per acre for the 10-year period 1946–55.

(*c*) *Large producers.*—In contrast with Arkansas and Mississippi where the small producers featured the participation, in California and Arizona the large producers appeared to dominate the participation. The staff visited two of the principal cotton counties in California, Fresno and Kern, where the total participation amounted to approximately $3.3 million, out of a total State program of $7.5 million.

In Fresno County, 1,438 cotton producers placed approximately 25,000 acres in the program, calling for compensation of $2.5 million. A review of the cotton agreements indicated that 10 of them which were in excess of $25,000 totaled $465,589, or about 20 percent of the entire participation in the county. A tabulation of these contracts indicating the acreage involved and the compensation is as follows:

Agreement No.	Name of participant	1957 allotment	1957 acreage-reserve program acres	Maximum compensation
37	Hammond Ranch, Inc	1,326.8	663.4	$82,261.60
555	Raymond Thomas, Inc	1,318.5	395.5	66,839.50
134	Broadview Farms, Inc	933.8	443.0	50,059.00
545	William E. Glotz	314.3	314.3	42,744.80
422	McCarthy & Hildebrand	1,073.1	473.1	42,579.00
554	Vernon L. Thomas, Inc	818.2	245.5	41,849.50
93	The Garin Co	535.4	275.0	40,425.00
977	John & Alex Kochergen	253.0	253.0	39,974.00
1473	Sproutie Corp	601.4	280.4	31,685.20
13	J. O. & O. L. Cooper	305.9	305.9	27,531.00
	Total	7,480.4	3,649.1	465,588.60

The rate of payment per acre with respect to the above contracts ranged from $90 an acre to a high of $169 an acre. ASC personnel stated that the above producers apparently considered the factors involved and decided that it would be best from their standpoint to participate in the program to the degree indicated above. They stated there was no question in their mind that the payment of $465,589 to the above 10 producers purchased an equivalent amount of cotton production. They stated that all of the land involved was

irrigated land and there were no hazards from the weather to induce them to join the program. They stated they believed that this participation would allow the producers to rest the land during the year.

In Kern County 271 producers entered the 1957 cotton ARP, placing approximately 5,850 acres in the program, calling for maximum compensation of approximately $747,000. In this county participation by large producers was also a feature. Four contracts in the county were in excess of $25,000, and the four involved totaled more than $212,000. The largest payment in the county was made to Robert Pelletier, who placed half of his cotton allotment of 1,594.6 acres in the program at a rate of $156 an acre. The 797.3 acres involved called for compensation of $124,378.80.

Mr. Laurin Echols, ASC office manager for the county, stated there was no question in his mind that this expenditure purchased an equivalent amount of cotton production. He stated he did not know the reasons for Pelletier's exceptional participation, but from his knowledge of him he knew he weighed all factors very carefully. He said that Pelletier studied the matter for several days before he decided to place 50 percent of his allotment in the program, and he did so only after a complete study of all financial factors involved. He stated that this participation gave Pelletier an opportunity to rest his land for future production and he did not believe any gimmicks were involved with respect to this producer.

(*d*) *Interplanting.*—During the staff's visit to California it was ascertained that producers having cotton allotments placed land in the 1957 ARP, even though such land had young fruit trees or young vineyards planted thereon.

California State ASC officials said the 1957 regulations permitted this if the trees or vineyards had been planted before the ARP agreement was signed and if the trees and vineyards were less than 5 and 3 years old, respectively. The significance of the 5 and 3 years is that fruit trees and vineyards are not productive until they are 5 and 3 years old. They said prior to the advent of the ARP some fruit and grape growers interplanted young orchards and vineyards with cotton or some other crop to provide some income during the period that the orchards and vineyards were not productive.

State ASC officials did not know the extent to which such acreage was being placed in the ARP but said this type of participation would be found in Fresno County since cotton, fruit, and grapes are all produced in that county.

The staff was informed that the California Farm Bureau and other fruit growers had complained orally to the State ASC office that this type of ARP participation was unfairly subsidizing new fruit groves and vineyards. As a result of these complaints, the State ASC office, by letter dated May 9, 1957, recommended that the Soil Bank Division amend the regulations to prohibit this type of participation in the 1958 ARP.

Mr. Cruz Venstrom, California Farm Bureau, informed this staff that he had discussed this type of ARP participation on several occasions with State ASC officials. He said he was of the opinion that the ARP program was subsidizing anyone with a cotton allotment who desired to plant a fruit grove or vineyard, and that the fruit and grape producers would suffer within a few years if this type of participation was permitted.

Mr. Charles Listman, office manager, Fresno County ASC office, advised this staff that, while he did not know the extent of the practice, quite a few producers had executed cotton ARP contracts placing in the program acreage which had young trees or vineyards planted thereon. He said such land would be eligible only if the producer had a cotton allotment and the land qualified as cropland, and further, only if the producer had no other open cropland to place in the ARP. The staff selected three ARP contracts at random as illustrations of this rather novel type of soil-bank participation. These three contracts are summarized below:

Agreement No.	Producer	Current land use	Number of acres	Rate	Compensation
1476	A. P. Peters ranch	Young trees	100.8	$79	$7,963.20
1394	Harry J. Aslan	1- and 2-year trees	43.0	79	3,397.00
1493	Franklin J. R. Nelson	1-year trees	21.0	102	2,142.00

Mr. Listman advised the amount of such land placed in the ARP was determined by measuring the perimeter of the land, even though such land had planted thereon fruit trees under 5 years of age or vineyards under 3 years of age. To illustrate the significance of this, as indicated above, the A. P. Peters ranch placed 100.8 acres that had young trees planted thereon in the ARP. Mr. Listman acknowledged that it was probable that, had the Peters ranch actually interplanted cotton between the rows of young trees, it would not have obtained the same yield as would have been obtained had the 100.8 acres been planted solid. Mr. Listman did not know what the difference of yield would be, however, as he stated that interplanting is in effect skip-row planting, which is known to return a higher yield than does solid planting.

Mr. Dwight W. Meyer, Deputy Director, Soil Bank Division, informed the staff that the 1957 ARP regulations permitted the type of participation discussed above. He stated, however, that it was his opinion that the regulations require that the land between young fruit trees or vineyards be measured to determine the amount of land that would be available for interplanting, and that only that amount of land, rather than the entire acreage, should be accepted in the ARP. Mr. Meyer said he had received an inquiry from a southeastern ASC office as to how land between pecan trees should be measured for the ARP and he advised this ASC office to accept only that land between the pecan trees that could have been interplanted with cotton. Mr. Meyer could not identify the ASC office which made this inquiry and subsequently stated that a check of his files failed to indicate any correspondence or memoranda pertaining to this inquiry.

Mr. Meyer stated that it was his recollection that some complaints had been received from fruit or grape growers that new orchards or vineyards were being subsidized by the ARP through this type of participation, but he advised later that his files showed only a letter dated May 9, 1957, from the California State ASC office, in which it was stated that representatives of the fruit industry believe that this type of participation would lead to serious overproduction of fruit crops in a few years.

Mr. Meyer stated that land planted to young fruit trees and vineyards probably has been placed in the ARP in Texas, South Carolina, Georgia, Alabama, and Florida. He said he had no idea of the number of acres containing fruit trees and vineyards that may have been placed in the ARP by producers in these States. He pointed out that the 1957 regulations have a provision which makes land on which young fruit trees and vineyards are growing ineligible for the 1958 program unless the trees or vineyards are removed from the land prior to the execution of the 1958 agreement.

While the 1958 ARP regulations prohibit this type of participation, the staff feels that it is worthy of comment because it illustrates the laxity of the ARP regulations as compared to the CRP regulations which have always prohibited this type of participation.

5. Mississippi

(*a*) *Participation.*—Mississippi producers executed 34,294 cotton ARP agreements, placing in reserve 252,214 acres of land calling for maximum compensation of $17,207,662. This represented 15.3 percent of the State allotment of 1,643,544 acres. The average agreement was for 7.4 acres, and the average payment amounted to $501.77.

In the counties visited by the staff, it was apparent that the heaviest participation was in the small-production areas of the State, while there was light participation in the large-production areas. It was also apparent that the farmers with small allotments of 10 acres or less were the heaviest participants in the program. As an example, in 6 counties with a combined allotment of 133,007 acres, there were 1,882 ARP agreements placing 16,259 acres in reserve, or 12.2 percent. In the delta area, where cotton production is heavy, in 6 counties with a combined allotment of 514,168 acres there were 996 agreements, placing in reserve 42,544 acres, or 8.3 percent.

The reasons for the small percentage of participation in the delta area, according to ASC officials, was because the cotton factors, cotton associations, and lending agencies were opposed to the ARP and their influence contributed to the continuation of cotton production. In other instances, the owners felt that, with tenant-operated farms, the return under ARP was not sufficient to warrant their participation in the program. Another reason advanced was the fact that many producers are proud of their cotton-production record and are opposed to any plans to curtail it.

The reasons for large participation by small producers was attributed to the fact that many producers have obtained off-farm employment and are using the ARP to assist them in getting out of cotton production and seeking other sources of income. According to S. C. Cooper, acting State administrative officer, and S. W. Sissell, program specialist, State ASC office, the small cotton farmer is gradually fading out in certain areas of the State, particularly in the southeastern and eastern parts. This was confirmed by county officials interviewed who advised that cotton production today is becoming highly mechanized and eventually the only cotton grown will be on the large mechanized farms. County officials also expressed the opinion that the ARP would not actually decrease production of cotton to any appreciable extent because the real producers were not in the program. They stated that the increased yields obtained by the large producers would

offset the reduction made by the smaller ARP participants, normal weather conditions prevailing.

State and county officials advised that in some sections of Mississippi during the current year there was extremely heavy rain which had drowned out and made it difficult to work the cotton, and, as a result, cotton production in the State for the current year would decrease.

(*b*) *Delta region, Mississippi.*—In accordance with the committee's interest in the irrigated areas of the Mississippi Delta, the staff made inquiry to determine the extent to which farmers were placing land in the ARP so as to increase the use of limited water on the remainder of the land.

Mr. Sissell, Thomas Barron, fieldman of the Mississippi State ASC office, and ASC personnel contacted in the delta area advised that, while many farms are irrigated, irrigation is not concentrated in any one area. They stated that whether a cotton farm in the delta was irrigated depended on the desires of the owner and the adaptability of the land to irrigation. They advised that the use of irrigation was increasing throughout the entire area.

A limited survey by 13 ASC offices in the delta area was made, and the results of this survey, together with data obtained from county ASC personnel based upon their personal knowledge, reflected that in the 13 counties there were 147 ARP agreements executed for irrigated land. The cotton allotments of these farms totaled 52,407 acres, of which 30 percent, or approximately 15,750 acres, was placed in reserve calling for maximum compensation of approximately $1.4 million.

ASC personnel stated that they did not feel that ARP participation by these individuals was due to a shortage of water, since there was sufficient rain in 1957.

ASC officials stated that the irrigation factor is considered by county committees in establishing individual farm rates for ARP, although no irrigation index is used. The county committee uses its knowledge of these farms and, from yield history, adjusts the basic county rate for establishing the individual farm rates in the county. Since irrigation generally would serve to increase the production yields of a farm, the resultant yield factor increases the farm payment per acre in proportion to the increased yield per acre. As an example, in Panola County a 460-acre farm with 90.1-acre cotton allotment was irrigated in 1955 and 1956. The county average rate was $72 an acre. Because of the yield history of this farm, it was rated at 130 percent of the county average, or at a rate of $93 an acre. Another farm consisting of 324 acres, with a cotton allotment of 26.5 acres and with no irrigation, was rated at 120 percent of the county average, or a rate of $86 an acre. According to the county officials, the difference in the rates on these two farms was due to irrigation.

(*c*) *Large producers.*—The largest 1957 ARP payment in Mississippi was to the Mississippi State Penitentiary, Sunflower County. The farm, consisting of 15,789 acres, is worked by the inmates and did not participate in the 1956 ARP. In 1957, the cotton allotment of this farm was 4,540.9 acres. Of this, 1,000 acres, under ARP agreement No. 179, was placed in the ARP at a rate of $71 per acre, making a total payment of $71,000 to the penitentiary. The 1,000 acres represented approximately 8.75 percent of the ARP participation in the

county. Mr. C. B. Bethea, Sunflower County ASC office manager, advised that participation of the penitentiary in the 1957 ARP was due to a desire and need to improve the land, and a good part of the acreage-reserve land was planted in winter cover crops.

O. L. Garmon, Jr., Quitman County, Miss., executed 1957 ARP agreements Nos. 177 and 178, receiving $50,421.80 and $16,675.60, respectively. Agreement No. 177 reflected that Garmon placed his entire cotton allotment of 586.3 acres in reserve and received $50,421.80 in compensation.

Mr. Garmon also leases public land which he has reportedly leased since 1940. According to information furnished the staff, his most recent lease was in 1955 for a 4-year period at a rate of $35 an acre for cottonland and $10 an acre for other land. This farm consists of 640 acres, of which 506.5 acres is cropland, with a cotton allotment of 177.4 acres. Under ARP agreement No. 178, Mr. Garmon placed the entire amount in the ARP and received maximum compensation of $16,675.60.

Based upon the cotton allotment and the other land involved in the farm, Mr. Garmon's rental for 1957 would be approximately $10,835; yet he received a 1957 ARP payment of $16,675.60 and still had 462.6 acres remaining in the farm to be used as he so desired.

Of the three other producers in the State who received payments in excess of $30,000 under the 1957 program, two were reported to have entered the program in order to level and increase the irrigated acreage of their land, and the other was due to a shortage of labor.

Two other cases were noted in the State which did not involve unusually large payments but appeared to be of interest. Marshall L. Houston, Grenada, Miss., executed three 1957 cotton ARP agreements placing his entire cotton allotment of 172.4 acres in reserve at maximum compensation of $13,005. Mr. Houston had leased this land in December of 1955 for a 4-year period and had a choice of paying $5,000 a year for the land, payable at the end of each year, or $3,300 per year in advance. He chose to pay the rent in advance. Mr. Houston reportedly farmed the acreage in 1956 and lost money. It would seem from the above figures that Mr. Houston in 1957 received $9,705 in excess of his annual rental expense. Mr. Gene A. McCoy, ASC office manager, Grenada County, advised he understood that Mr. Houston paid a rental of $25 an acre for the cottonland involved, and that this is the normal rent received per acre in the county for that type of land. It is significant to note that, while the normal rental value is $25 an acre, the average ARP rate in the county is $75 an acre.

Another contract of interest was found in Grenada County where W. O. Geeslin signed 1957 ARP contract No. 85 placing in reserve 34.4 acres of cotton and received maximum compensation of $2,820.80. This farm consists of 865 acres, with a 1957 cotton allotment of 88.1 acres, and is leased every 5 years to the highest bidder. Mr. Geeslin leased the land in 1954 at an annual rental of $2,250. It would seem, therefore, that Mr. Geeslin received, from the ARP contract, $570 in excess of his total annual rental, and still had 53.7 acres of cotton allotment to use, as well as the remaining portion of the farm.

(*d*) *Production.*—As of December 1, 1957, Mississippi's production was estimated to be 1,160,000 bales, a decrease of 449,000 bales from 1956 and 542,000 bales less than the 10-year average 1946–55. This

represented reductions of 27.9 percent and 31.8 percent, respectively, when compared to prior years. As was the case in Arkansas and in Texas, the drop in production was reflected in the forecast for the latter part of 1957. The cotton reports for the months of September up to and including December reflected the following production estimates for the State:

	Bales
Sept. 1	1,550,000
Oct. 1	1,400,000
Nov. 1	1,290,000
Dec. 1	1,160,000

As indicated in the above, the forecast for October was 150,000 bales less than September, the November report was 110,000 bales less than October, and the December report was 130,000 bales lower than the previous month. The net reduction in the forecast between September and December was 390,000 bales. The cotton report of October 1 indicated that wet cool weather during September reduced prospective production in the southeastern and central areas and further indicated that harvest was at a virtual standstill during September, with less than one quarter of the crop ginned in Mississippi. The cotton report as of November 1 indicated that weather delayed harvest in Louisiana, Mississippi, and Tennessee. Unfavorable weather was cited in the cotton report as of December 1 as the reason for the delay in harvest during November.

6. Texas

(*a*) *Participation.*—In 1957, Texas producers executed 56,135 upland cotton ARP agreements, placing in the reserve 1,126,413 acres of land representing maximum compensation of $39,313,504. This participation represented 61.4 percent of the $64,055,300 allocated to the State for the 1957 ARP. The acreage involved represented 14.9 percent of Texas' share of the national allotment, namely, 7,547,503 acres. The average agreement amounted to 20.1 acres and called for an average payment of $700.34.

The staff's previous report pointed out that, on March 1, 1957, the USDA authorized acceptance of "over limit" acreage which had been offered by those farmers who had signed agreements. State and county ASC officials advised at that time that, although the "over limit" acreage offered was substantial, there had been recent rains in Texas and the outlook at that time was for good weather.

Accordingly, they believed that many farmers would change their minds and not put additional acreage in the ARP. William L. Feemster, Williamson County ASC manager, said he thought about half of the additional acreage offered in his county would be withdrawn because of the improved weather conditions.

The report further pointed out that certain producers interviewed advised they were staying out of the 1957 ARP because of the good weather prospects in March 1957.

Mr. Henry Carder, program specialist of soil bank, State ASC office, advised that the participation in the program in Texas during the years 1956 and 1957 was primarily caused by the drought and a good selling job done by the county offices of the USDA.

Mr. Carder pointed out that many areas in the State had suffered from a severe drought and some areas, particularly the north plains area in the Panhandle, had suffered drought for the past 6 or 7 years.

Mr. Carder stated the program was attractive to large producers because it enabled them to place part of their land in ARP in order to insure a fixed income and permitted them to gamble with the rest of their land in order to make a good crop, depending on weather conditions.

Mr. Carder stated that, in his opinion, there was no incentive for a family-sized farmer to participate in the ARP because the program would not furnish him sufficient income to operate his farm unless he obtained other employment or could depend on other sources of income. He stated that, where a producer was dependent solely on the production of his farm for his livelihood, there was no incentive for him to enter ARP.

Mr. Carder advised that, with respect to irrigated land, the area which had the heaviest participation in 1957 was in the lower Rio Grande Valley, which is just north of Brownsville, Tex. He stated that this is a heavy cotton-producing area, and that, at the time of the time of the signup for the 1957 program, the source of water for the area was a dam which had a low level of water. It seemed that the producers would be unable to make a successful crop because of the lack of moisture and, as a result, there was heavy participation in the ARP in this area. He stated that, as it turned out, there was plenty of moisture for a good crop in that area, but this fact was not known until after the signup date.

With respect to the many comments made by large producers in the State to representatives of this staff, Mr. Carder stated that he felt the primary reasons for participation in the program were the drought and the educational program by the county offices. Mr. Carder stated there were many financially sound producers in the State who had a sincere desire to conserve the land for their children and grandchildren. He stated that the only individuals whom he thought were sincerely interested in this conservation were those who were financially able to do so. He pointed out that the soil-bank program gave these individuals an excellent opportunity to conserve their land and at the same time receive compensation from the Government.

(*b*) *Lubbock County, Tex.*—With respect to the committee's request to ascertain the extent that producers were placing land in the ARP in order to use limited or expensive water on the balance of the land, the staff visited Lubbock County, Tex. Mr. Walter Wells, ASC office manager of Lubbock County, advised that the county is 1 of 16 counties in ASC District 2 which produces between one-third to one-half of the total Texas cotton crop. He stated that approximately 80 percent of the farms in the county have some irrigation. He said this irrigation is done by wells as the average annual rainfall is but 18 or 19 inches. He said that in the last 5 years the rainfall has been less than normal. He further advised that about 2 or 3 years ago the water table in the Lubbock area began to go down and, while not considered critical, in 1957 it caused some concern. He said that some of the farms in the ARP did participate because of a shortage of water or to use short water on other land, but that there was no indication that the general participation was due to a critical water problem. He said the water conservation district covering his area estimated that at least 15 years of satisfactory water supply exists, based on present conditions and use.

Mr. Wells further advised that in 1957 there were 181 ARP agreements covering 6,500 acres of land which represented but 3 percent of the total of the 231,000-acre cotton allotment for the county. He said the majority of these participants had farms which were irrigated to some extent. He stated that the average rate of payment for dryland farms as opposed to irrigated farms was so low that these farmers did not participate in the ARP. He stated that, in some instances, the payments for dryland farms were as low as $13 an acre and did not average more than $25 an acre. He said these producers felt that, if they could produce one-half of a bale to the acre, they would be better off than participating in the ARP.

Mr. Wells stated that some of the ARP participants put one-half of their allotment in the program, and that he personally felt that some of them did not have water for all their allotment. He said the payment rates ranged from a low of $13 an acre for dryland farms to a high of $94 an acre for irrigated farms, and the average was about $63 an acre. He said that, where the farm was irrigated and the water known to be weak, the rate was set between $45 and $50 an acre. He said that in certain areas of the county the water was weak, but the areas would be difficult to identify by description, since they were so scattered. He said generally he did not think the participation in the county was due to a critical water problem.

An implement dealer in Lubbock, Tex., advised that he knew of very few farmers having good irrigated farms who were in the 1957 ARP. He said the water table or level of the wells supplying the irrigation has been slipping and the marginal wells in south and southwestern sections of the county, where the majority of these weak wells are located, have been causing concern to the farmers. He stated, however, that the county received good rains since May 15, 1957, and, therefore, water was no problem at the time of interview.

(*c*) *Large producer reaction.*—Inquiry showed that 43 ARP cotton agreements were executed, calling for payments in excess of $25,000 each. The total value of these contracts was $1,920,087.25. The average payment was approximately $44,653.19. In an effort to ascertain the reason for such heavy participation, 23 of the producers or their representatives were interviewed. Illustrative of the reasoning for the heavy participation are the following:

1. Lack of water supply and drought (nine producers).
2. A desire to reduce cotton surplus (five producers).
3. Opportunity to improve and rest the land (three producers).
4. Labor shortage (two producers).
5. A desire to conserve the land for future use (two producers).
6. To put more emphasis on other land in order to get better production (one producer).
7. The closing of the spread between the cost and selling price of cotton (one producer).
8. To enable producer to take life easier from a personal standpoint (one producer).

In contrast to these heavy participants, the staff was advised that several large owners did not participate in the program because under their leasing agreements they would receive only 25 percent of the compensation. Many of the producers felt that this was not sufficient return to them on their land. This reasoning was also true for many producers whose farms are operated by tenants.

(*d*) *Production.*—Texas' production of upland cotton for 1957 was estimated to be 3,550,000 bales as of December 1, 1957, which was 48,400 bales below its production of the same type of cotton in 1956 and 179,900 bales below the average for the previous 10 years, 1946–55. As of December 1, 1957, it was also estimated that Texas' American-Egyptian cotton production would be 25,000 bales, for a total cotton production for the year of 3,575,000 bales.

A review of the cotton report for the months of September through December 1957 for all cotton produced in the State reflected the following:

	Bales
Sept. 1	4,050,000
Oct. 1	4,100,000
Nov. 1	3,900,000
Dec. 1	3,575,000

In reviewing the above schedule, it is to be noted that the figures included, not only upland cotton, but also American-Egyptian. The crop reports do not indicate the quantity of American-Egyptian that is included in the total figures for the months of September through November, but in December it includes 25,000 bales of American-Egyptian. The production figures indicate on November 1 cotton production for the State was estimated to be 3.9 million bales, or a reduction of 200,000 bales from the previous month. The November 1 cotton report indicates that in Texas the slow-maturing crop was overtaken by earlier-than-average frost and freezes around the 26th to the 28th of October. It further indicated with respect to Texas that weather during October was most unfavorable for maturing and harvesting the crop. It indicated also that losses from late October freezes were heaviest on irrigated cottonland north of Lubbock, whereas losses south of Lubbock were generally light.

The crop report as of December 1, 1957, indicated a drop of 325,000 bales in Texas cotton production. It was reported that, in Texas and Oklahoma, the rainy and damp weather which followed the late October frosts and freezes resulted in the loss of bolls which would have opened under less humid conditions.

Prior to the receipt of the December 1 cotton forecast with the reported drop of 325,000 bales in the cotton estimate for the State, the staff discussed the previously estimated increase in production with Mr. Henry Carder, program specialist of the Texas State ASC office. Mr. Carder stated that he felt the increase in cotton production for 1957 over 1956 was due to a better grade of seed used by the producers, better fertilization, greater use of insecticides, and irrigation.

As an example of this, Mr. Carder advised that the Western Cotton Oil Co., Abilene, Tex., a subsidiary of the Anderson & Clayton organization, in 1946 to 1948 began developing cotton production in Reeves County, Tex. He stated that this organization had financed the producers and had moved in cotton-ginning equipment, and through their supervision had made Reeves County the best cotton-producing county in the State. He pointed out that in 1951 the yield in that county was 1½ bales an acre. In 1957, it was 4 bales an acre, and the producers are predicting that by 1960 it will make 6 bales to an acre.

Mr. Carder pointed out that, productionwise, the most cotton is grown on irrigated land, while acrewise the most cotton is grown on

nonirrigated land. He stated that they had received very small participation in ARP in the irrigated-land areas.

X. Rice

A. PARTICIPATION

In 1957 rice producers in 12 States executed 4,825 agreements placing 242,017 acres of land in the ARP, calling for maximum compensation of $15,466,625. As indicated by the compensation paid, these rice producers oversubscribed the allocation of $14 million made under the program. The agreements average $3,205.52 each, representing 50.2 acres at $63.91 an acre. The acreage represented in the agreements amounted to 14.7 percent of the national rice allotment of 1.65 million acres.

B. COMPARISON ARP COMPENSATION WITH PRODUCTION

A summary of the compensation received by each State for participation in the rice ARP is set forth in the following schedule, which includes pertinent production data relative to rice for the years 1957, 1956, and the 10-year average, 1946–55.

Rice

State	Acreage-reserve program	Production (1,000-hundredweight bags)			Yield per acre (pounds)		
		Indicated, 1957	1956	1946–55 10-year average	Indicated, 1957	1956	1946–55 10-year average
Arkansas	$3,266,476	11,039	12,224	10,034	3,325	3,200	2,283
California	4,667,200	9,266	12,012	9,951	4,100	4,200	3,134
Louisiana	2,436,858	10,600	12,150	12,075	2,650	2,700	2,010
Mississippi	770,868	992	1,254	956	3,200	2,850	[1] 2,600
Missouri	49,714	129	132	83	3,300	3,000	[1] 2,532
Texas	4,203,048	11,104	11,687	12,491	3,200	2,900	2,365
Other States [2]	72,461						
Total	15,466,625	43,130	49,459	45,590	3,219	3,151	2,355

[1] Short-time average.

[2] Crop Reporting Board does not report production for other States. Acreage-reserve program participation for them is as follows:

Florida	$7,288
Illinois	1,300
North Carolina	564
Oklahoma	7,897
South Carolina	26,678
Tennessee	28,734
Total	72,461

As indicated from the preceding schedule, rice production in 1957 was estimated at 43.1 million hundredweight bags. This was 13 percent less than last year, and 5 percent below average. According to the Crop Reporting Board, this was the smallest crop since 1950, and was due primarily to reduced acreage brought about by participation in the ARP.

The Board pointed out that the 1.34 million acres harvested in 1957 was 15 percent less than last year and 30 percent less than the 10-year average. The 1957 yield of 3,219 pounds per harvested acre reached a record level.

The Board further reported that, in the southern area, planting was delayed, due to wet weather, and a hurricane in Louisiana caused loss of acreage and reduced yields. It was stated that, despite adverse weather conditions, heavy applications of fertilizer and favorable summer growing weather resulted in a bountiful crop.

1. Arkansas

(*a*) *Participation.*—Arkansas producers executed 1,762 rice agreements in 1957, covering 53,188 acres of land, calling for maximum compensation of $3,266,476. The acreage involved was approximately 13.3 percent of the State's rice allotment of 399,038 acres. The average agreement called for the retirement of 30.2 acres of land and was for $1,853.85.

Mr. Robert A. Tindall, chairman, Arkansas State ASC Committee, and Mr. Clyde Lieblong, ASC State administrator, as well as county representatives, advised this staff that, generally speaking, a larger number of smaller rice producers participated in the program than large producers. These individuals stated that rice farming was highly mechanized and that a farmer in this category would not find it profitable to reduce his acreage by placing any part of it in the ARP. They stated that, generally, the percentage of ARP participation was smallest in the area where the greatest amount of rice was grown. As an example, it was found in Arkansas County, a heavy rice-producing area, only 7.9 percent of the rice allotment of 69,323 acres was placed in the ARP. In Perry County, which has an allotment of only 907 acres, the participation was 47.4 percent.

These individuals further stated that some of the participation was because the program gave the farmers an opportunity to clean up their riceland and still be paid under the program.

R. D. Wilmans & Sons, Inc., Diaz, Ark., signed 1957 ARP agreement No. 38, placing their total rice allotment of 547.9 acres in reserve, receiving a payment of $36,161.40. The reason for this heavy participation was unknown. However, according to Mr. James E. Madison, Jackson County ASC manager, riceland needs to be cleaned periodically, and this participation gave the farmer this opportunity.

Mr. Adolph Renchler, of Arkansas County, signed 1957 ARP agreement No. 63, placing his entire rice allotment of 421.3 acres in reserve and receiving a payment of $30,754.90. According to Mr. H. B. Hardwick, Arkansas County ASC manager, Mr. Renchler had planted lespedeza on all land placed in the ARP. In addition, Renchler had requested an ACP payment of $1,500, but received only $500 because of the lack of funds. It would appear that Mr. Renchler used the program, together with his ACP payment, as an opportunity to clean up his riceland and prepare for future production. It is also significant that, according to Mr. Hardwick, Mr. Renchler did not desire to place only part of his acreage in reserve, but wanted to participate 100 percent.

Another payment of note was made to the Arkansas State penal institution under agreement No. 46. The penitentiary placed 400 acres of a 1957 rice allotment of 921.2 acres in the 1957 ARP, at a rate of $57 an acre, receiving compensation of $22,800 for such participation. According to Mr. W. B. Abbott, county ASC manager, Jefferson County, Pine Bluff, Ark., he knew of no particular reason for participation on behalf of the penal institution, unless they felt it

was best to participate. He added that participation in the rice ARP gave the participants an opportunity to clean up their rice land.

Another contract of interest, although not unusually large, was found in Arkansas County. The city of De Witt, Ark., owns a 120-acre farm located at the city airport. From 1951 through December 31, 1956, this tract was leased to Muller-Dickson, Inc. From 1951 to 1953 it was rented on a share basis, with the city of De Witt receiving a share of the crop. On February 5, 1954, the lease was renewed for a period of approximately 3 years, ending December 31, 1956, with an annual rental of $1,604. By 1957 ARP agreement No. 87, executed by the city of De Witt, the entire rice allotment of 44 acres was placed in reserve and maximum compensation of $2,640 was paid. Subsequently, the Muller-Dickson Co. filed a statement with the ASC office contending that, in February 1957, the City of De Witt Airport Commission advertised that it would lease the land on a cash basis to the highest bidder. The statement further contended that the firm submitted the highest bid but no contract was signed. The statement further alleged that in March of 1957 the airport commission placed the rice allotment in the ARP. The Muller-Dickson Co. contended that it was entitled to receive four-fifths of the ARP payment as a tenant. At the time of the investigation in Arkansas a decision in this case had not been reached by the State ASC committee.

The staff notes that this is a case which reflects how the value of a parcel of land can be enhanced as a result of soil bank. It can be seen that, for the 3-year period, including 1956, the commission received $1,604 a year rental for the land. However, as a result of ARP, it could place a portion of the land in the program and receive a return of $2,640 a year.

(*b*) *Production.*—Arkansas's rice production for 1957 was estimated to be 11,039,000 hundredweight bags, approximately 10 percent less than last year, but about the same percentage above the 10-year average. Its yield per acre for 1957 was 3,325 pounds, slightly above the previous year but substantially above the 10-year average of 2,283 pounds.

2. California

(*a*) *Participation.*—California producers executed 849 rice agreements under the 1957 ARP, placing in the reserve 63,879 acres of land, calling for compensation of $4,667,200. The acreage involved represented 21.3 percent of California's rice allotment of 299,785 acres. The average agreement amounted to 75.2 acres and called for an average payment of $5,497.29. The largest participating county was Sutter, which has a common office with Yuba County. The ARP rice participation for these two counties in 1957 was as follows:

	Sutter	Yuba	Total
Number of allotments	620	166	786
Allotted acreage	48,960	10,998	59,958
Acreage-reserve program agreements	129	46	175
Acreage-reserve program acres	9,682	6,939	16,621
Total compensation	$737,380.03	$173,917.24	$911,297.27

Mr. Ellsworth Colley, assistant office manager for both counties, advised that agricultural production in the two counties required irrigation. He stated that in most instances where land was placed in ARP, producers did so in order to rebuild the land which they had placed in the reserve. He said the substantial participation by rice producers was based upon the fact that the ARP gave them an opportunity to rebuild their soil and still receive some payment.

Mr. Colley stated that producers in the counties had been rotating crops, but that the continual use of the soil had reduced its quality and this program gave them a much-needed opportunity to rebuild their soil, looking toward greater production in future years. He advised further that producers in the county had signed wheat agreements totaling approximately $100,000. He said that many of these producers who participated in the wheat ARP diverted their land from the production of wheat to the production of barley, sorghums, and safflower. He stated that safflower was an oilseed crop which is used in the manufacture of paints and varnish.

The largest rice ARP contract executed in California was found in Sutter County. The Sutter Basin Corp., Ltd., Robbins, Calif., signed 1957 ARP agreement No. 1, placing 1,402.7 acres of their rice allotment in the ARP, and received maximum compensation of $103,799.80.

(*b*) *Production.*—California's rice production for 1957 as of December 1, 1957, was estimated to be 9,266,000 hundredweight bags, substantially under the 1956 production and slightly below the 10-year average. Its 1957 yield per harvested acre of 4,100 pounds was slightly less than last year, but was well above the 10-year average.

3. Mississippi

(*a*) *Participation.*—Mississippi producers executed 134 rice ARP agreements in 1957, covering 12,788 acres, with maximum compensation of $770,868. This represented approximately 27.4 percent of the total rice allotment of 46,677 acres. The average agreement was for 95.4 acres and a payment of $5,752.75.

The original allocation to Mississippi under the 1957 rice program was $378,100. Due to the heavy participation, it was necessary to increase this allocation by $392,768.

The majority of the increase went to Bolivar and Washington Counties. As a result of the heavy participation Bolivar County received maximum compensation of $352,308, and Washington County received $227,083. Bolivar and Washington Counties had the largest rice allotments in the State and participated in the 1957 ARP to the extent of 30 and 42 percent, respectively.

Mr. Clarence Gordy, ASC office manager for Washington County, stated the heavy participation was due to the fact that it gave the rice farmers an opportunity to rotate and clean up the riceland and still receive some compensation. By participating in ARP the farmers were able to take the ricefields out of production, clean it up, and get it in shape for the following year, whereas without the ARP it would have been necessary to prepare new fields or take some of the land out of production, both of which alternatives would be costly to the farmer.

The 1957 ARP rice rate ranged from a county average base rate of $24 per acre in Hancock County to $63 in Leflore, Tallahatchie, and Tunica Counties. The lowest county base payment rate in the delta area was $57 an acre in Tate and Issaquena Counties. The highest average rate paid a producer was $84 an acre in Washington County.

Staff inquiries in the counties visited reflected the difficulty in establishing land values. The values depend on many variations, such as location, buildings, various allotments, irrigation, etc.

J. W. Barnett, Bolivar County ASC assistant manager, estimated that well-located cropland would bring from $150 to $350 an acre and he added that it was difficult to find much land of this type for sale.

Van Davis, Coahoma County ASC manager, stated that what would be considered as poorer cropland would bring about $175 an acre with the better land bringing up to $400 an acre and the best land was not for sale.

Clarence Gordy, Washington County ASC manager, stated that good riceland would bring from $100 to $130 an acre. A representative of the National Farm Loan Association stationed at Greenville, Washington County, Miss., stated that the best farms generally were not for sale but that the poorer cropland would bring from $75 to $110 an acre and the better cropland from $250 to $300 an acre.

Fontenot & Fontenot, of Washington County, executed a 1957 rice ARP contract, placing their entire allotment of 390.8 acres in reserve and received compensation of $32,827.20. The staff was advised that the Fontenots have a reputation of being one of the best rice farmers in the Mississippi Delta and they participated because it gave them an opportunity to clean up their riceland.

This was also true of the Hegar Bros., of Bolivar County, who executed a 1957 rice ARP contract placing their entire allotment of 457 acres in the reserve and received compensation of $28,791.

(*b*) *Production.*—Mississippi's rice production as of December 1, 1957, was estimated to be 992,000 hundred-weight bags. This is a drop of 20.9 percent from 1956, but slightly above the 1946–55 average. Its 1957 yield per harvested acre of 3,200 pounds was well above the yield for 1956 and the 10-year average yield.

4. Texas

(*a*) *Participation.*—Texas producers executed 677 rice ARP agreements in 1957, placing 67,440 acres in reserve for compensation of $4,202,048. The acreage involved represented 16 percent of Texas' rice allotment of 422,341 acres. The average agreement amounted to 99.6 acres and called for an average payment of $6,206.87.

Mr. Henry Carder, program specialist, State ASC office, advised that the rice program under the soil bank was attractive because the big rice producers could place part of their land under ARP for an insured income and gamble with the remaining portions of their land for a crop. He stated that, in 1957, there were better moisture conditions for rice production than in 1956, which would account for the production in these 2 years being about equal, even though 67,440 acres of rice were placed in the ARP.

Mr. Carder stated the producers of rice did not divert the water from the land placed in ARP to the remaining rice cropland because of the excellent moisture conditions in 1957. He stated that he did not think the producer entered the program with the intention of diverting the water and that, since most of the rice in Texas is grown in the southeastern part of the State, there are no other major crops grown in this area. He advised that there is some minor production of grain sorghums and cotton in this area.

He stated the rice allotments are usually large and for that reason would enable most producers to place part of their land in the ARP in order to guarantee a fixed income. He stated a 4- to 15-acre allotment would be considered a small producer in the rice area, and that not too many of those producers participated in the program because the rate they would receive from the program was not sufficient for them to make a livelihood.

Mr. Warren N. Moore, Brazoria County, executed a 1957 rice ARP agreement placing his entire allotment of 923.8 acres in reserve and receiving compensation of $53,580.40. Mr. Moore advised the staff that the weather at the time of the signup date was a major factor in his decision to participate in the program. He stated that during the first week of March there was rain and, even if it ceased, it would require 3 or more weeks before he could plant his crop. He stated the program represented an insurance to him and his heavy participation was based on the guess that he would not be able to plant a crop due to weather conditions. The same thing applied, according to Mr. Duward Harper, to the Chocolate Bayou Rice & Canal Co., Brazoria County, Tex. This company signed a 1957 ARP rice agreement placing 500 acres of their allotment in reserve and receiving a payment of $28,000.

(*b*) *Production.*—Texas's rice production as of December 1, 1957, was estimated to be 11,104,000 hundredweight bags. This is a drop of 5 percent from 1956 and 11.1 percent below the 1946–55 average.

XI. Tobacco

A. PARTICIPATION

Tobacco producers executed 51,828 ARP agreements covering 79,701 acres of land and calling for maximum compensation of $17,806,424. The acreage involved represented 6.8 percent of the total national allotment, and the compensation represented 52.3 percent of the total tobacco allocation. The average agreement covered 1.54 acres of land at $223.42 an acre, for a total average payment of $343.57.

In reporting statistical data relative to the ARP, the Soil Bank Division classified tobacco participation in 11 groups. To facilitate the comparison of ARP participation with production for 1957 and prior years, the staff has regrouped the various types of tobacco into 6 divisions. The participation by each State in the tobacco ARP according to these six subdivisions is set forth in the following table:

1957 tobacco acreage-reserve program, funds obligated May 17, 1957

State	Flue-cured T-11-14	Fire-cured T-21-23	Burley T-31, Maryland T-32	Air-cured T-35-36, Virginia sun-cured T-37	Cigar filler T-42-44	Cigar binder T-51, 52, 54, 55	Total
Alabama	$32,569		$1,400				$33,969
Arkansas			7,378				7,378
Connecticut						$1,616,486	1,616,486
Florida	765,618						765,618
Georgia	1,892,309		8,238				1,900,547
Indiana			80,741	$985			81,726
Iowa						133	133
Kansas			8,904				8,904
Kentucky		$483,523	621,682	245,153			1,350,358
Maryland			825,815				825,815
Massachusetts						964,847	964,847
Minnesota						11,799	11,799
Missouri			87,514				87,514
New Hampshire						279	279
North Carolina	5,998,856		130,830				6,129,686
Ohio			108,793		$55,020		163,813
Pennsylvania					352		352
South Carolina	964,090		264				964,354
Tennessee		336,091	501,353	17,981			855,435
Texas			136				136
Vermont						2,099	2,099
Virginia	957,405	219,334	72,686	299,466			1,548,891
West Virginia			72,539				72,539
Wisconsin						413,746	413,746
Total	10,610,847	1,038,948	2,528,283	563,585	55,372	3,009,389	17,806,424

From a review of this schedule, it is to be noted that the State of North Carolina, with participation of approximately $6.1 million, was by far the largest participant in the program. The staff points out that the 3 smallest States were Iowa with participation of $133, Texas with $136, and New Hampshire with $279.

The compensation paid to participating producers under the tobacco ARP was based upon the following unit rates for the different type of tobacco eligible under the program:

Tobacco type:	*Rate per pound*
Flue-cured 11-14	$0.18
Burley 31	.18
Maryland 32	.17
Fire-cured 21-23	.13
Air-cured 35-36	.12
Virginia sun-cured 37	.12
Cigar filler 42-44	$0.09
Cigar binder:	
51	.19
52	.18
54	.08
55	.11

B. COMPARISON ARP PARTICIPATION WITH PRODUCTION

There is set forth a table reflecting ARP participation according to the 6 groups, together with the pertinent production data for tobacco for the years 1957 and previously:

[Pounds in thousands]

	Acreage-reserve program participation	Production, 1957	Production, 1956	10-year average, 1946-55
		Pounds	*Pounds*	*Pounds*
Flue-cured, T11-14	$10,610,847	984,351	1,422,538	1,301,856
Fire-cured, T21-23	1,038,948	55,130	70,566	69,304
Burley, T31-32	2,528,283	521,280	543,540	612,920
Dark-aircured, T35-37	563,585	26,163	33,919	34,365
Cigar-filler, T42-44	55,372	5,920	6,600	8,544
Cigar binder, T51, 52, 54, 55	3,009,389	28,026	33,523	56,388
Total	17,806,424	1,620,870	2,110,686	2,083,377

A comparison of the yield per harvested acre for 1957 and prior years is set forth below:

[In pounds]

	Yield per acre 1957	Yield per acre 1956	10-year average 1946–55
Flue-cured, T11–14	1,485	1,625	1,255
Fire-cured, T21–23	1,494	1,501	1,169
Burley, T31–32	1,519	1,538	1,292
Dark air-cured, T35–37	1,478	1,514	1,167
Cigar filler, T42–44	1,600	1,650	1,486
Cigar binder, T51, 52, 54, 55	1,741	1,754	1,556

A summary of the pertinent comments relative to tobacco production appearing in the annual crop report is as follows:

Tobacco.—Combined production of all types of tobacco in 1957 is estimated at 1,680 million pounds. This is 23 percent below production in 1956, 22 percent below the 1946–55 average, and the smallest total crop since 1943. The total acreage of tobacco harvested this season is placed at 1,123,000 acres, 18 percent below last year and the smallest since 1908. As in 1956, all important types were under quotas except cigar wrapper and Pennsylvania Seedleaf. Of the types under quotas, flue-cured, fire-cured, Maryland, dark air-cured types 35 and 36, and Connecticut Valley binder sustained relatively heavy cuts in allotted acreage. Further reductions were made in practically all types as a result of the soil-bank program. The average yield per acre from the 1957 crop, estimated at 1,496 pounds, is the second highest of record, exceeded only by the 1.597-pound average realized in 1956.

Flue-cured tobacco.—Production is placed at 984 million pounds—31 percent less than 1956 and the lowest since 1943. In addition to the effects of a 20 percent reduction in allotments, the potential production of flue-cured was further lessened because of soil bank participation, a marked decrease in the planting of certain high-yielding varieties, and an unfavorable growing season in some producing areas. In Georgia, excessive rains during May and June retarded the crop to the extent that it never fully recovered. The transplanting and early growing season in the Carolinas' Border Belt was too wet but thereafter a fairly good growing season prevailed.

Fire-cured tobacco.—Production of fire-cured types is estimated at 55 million pounds, compared with nearly 71 million in 1956 and the 1946–55 average of 69 million. On an average, type 22 areas had a favorable season; however, for type 23, the growing season was too wet for optimum development.

Burley tobacco.—A burley crop of 490 million pounds is expected. Production at this level is about 3 percent below the 506 million pounds harvested in 1956 and nearly 15 percent below the average. Conditions during the growing season were somewhat variable but, for the most part, were moderately favorable in Kentucky, Tennessee, and most of the minor producing areas. Generally, moisture was excessive during the planting season but conditions turned to the dry side during July and August.

Dark air-cured tobacco.—Dark air-cured production is placed at 26.2 million pounds. This is 23 percent below production in 1956 and second only to 1936 as the smallest outturn since records began in 1919. Acreage harvested this year is estimated at 17,700, which is 21 percent below last year and the lowest on record.

Cigar filler tobacco.—Combined production of Pennsylvania Seedleaf and Miami Valley cigar filler is estimated at 47.1 million pounds. This compares with the 1956 aggregate of 57.6 million pounds and the average of 58.3 million. Total cigar filler acreage, type 41–44, at 33,100 acres compares with 34,000 harvested in 1956.

Cigar binder tobacco.—Total cigar binder production, types 51–55, estimated at 28 million pounds, is 16 percent below 1956 and one of the smallest crops of record. In the Connecticut Valley, estimated Broadleaf production at 4.8 million pounds and Havana seed at 3.2 million both dropped to the lowest point of record. Total binder acreage harvested this year, at 16,100, was the lowest record in nearly 4 decades.

C. FINDINGS BY STATES

As shown in the above schedule $17.8 million was obligated under the tobacco program. The staff visited the States of North Carolina, Connecticut, and Massachusetts, whose total participation amounted to approximately 48.9 percent of the entire program.

1. Connecticut

Connecticut participation covered two types of tobacco, namely, cigar binder T–51 and cigar binder T–52. The following represents a summary of the participation by these producers:

	Number of agreements	Acres in reserve	Maximum compensation	Percent of allotment (acres)
Type 51	873	4,083	$1,329,339	55.7
Type 52	260	903	287,149	68.6
Total, both types	1,133	4,986	1,616,488	57.7

With respect to participation, the staff, in its previous report, pointed out that during the past 3 years a new manufacturing process for cigar binders has been developed which resulted in the demand for this type of tobacco being cut approximately 50 percent. The process enables manufacturers to use a cheaper grade of tobacco and to operate with a 6- to 12-month supply, rather than a 3-year inventory, which was the practice prior to the development of the new process.

It was also pointed out that the full impact of the new process was first felt with the 1955 crop, when the bulk of the crop was not purchased by buyers but placed in cooperatives.

Mr. Albert Sweeton, ASC office manager, Hartford County, the county which accounted for approximately 80 percent of the State's participation, and Howard B. Goodrich, fieldman for the State of Connecticut, advised that the heavy participation in the State could be accounted for because of the radical changes which occurred in Connecticut's tobacco economy as a result of the aforesaid new manufacturing process. They also stated that participation in Connecticut would have been higher if large producers had been allowed to place 100 percent of their allotment in the program. They stated that they believed such partici-

pation would be very harmful for the tobacco economy in the State and, therefore, officials of Connecticut advised against allowing full 100 percent participation by a large producer.

They both stated that the payment of ARP funds substantially reduced tobacco production, that it helped the price-support program, as well as the producer, and they believed overall it was a very excellent program. They stated further that, in their opinion, placing acreage in the reserve could not be offset by increasing yields on the remaining acreage, because they believed that the ultimate in yields had been reached in Hartford County and no further intensification would produce heavier production per acre.

There was only one contract in the State larger than $25,000, and that was in the amount of $32,595.28. This payment, the largest in the whole tobacco ARP, represented agreement No. 351 executed by Jean E. Shepard, South Windsor, Conn. The agreement placed 104.67 acres, or 50 percent of the producer's 1957 allotment of 209.34 acres, in the ARP. The payment rate per acre was $311.41, and, as stated previously, the maximum compensation of the agreement was $32,595.28. Information was received by the staff that this producer is the leading exponent of the previously mentioned new tobacco processing procedure.

An interesting example of individual benefits of the soil bank in operation in Connecticut is demonstrated by agreement No. 280 in Hartford County. In this agreement Thomas J. Hackett et al., an estate, place in the ARP 39.81 acres of land, or 50 percent of its total allotment of 79.63 acres. The payment rate was $315.97 per acre, and the agreement called for maximum compensation of $12,578.77. Naturally, the producer had 39.82 acres of his allotment left. The background of this agreement is as follows:

In 1956 this property, which consisted of 100 acres, was leased to the J. E. Shepard Co. at an annual rate of $10,000. In 1956 this land, which had an allotment in that year of 88.41 acres was sublet by Shepard to a tobacco firm, Kupchunos, Bros., Inc. The rental was $100 per acre, or $10,000 for 1956. Since the lease terminated at the end of 1956, the owners placed a portion of it in the 1957 soil bank as described previously, receiving $12,578.77. On this transaction alone, the soil bank participant received approximately 25 percent more than the annual rental of $10,000 for the entire 100 acres. The staff learned that the owners of the land, after placing 39.81 acres in the soil bank, leased the remaining acreage to others for the production of tobacco and potatoes. According to the information supplied, the owner would receive $100 an acre rental for the remaining 39 acres of tobacco allotment and $50 an acre for the balance of the land on which potatoes were being grown. The staff believes that, with an ARP payment rate of $315.97 an acre, little or no difficulty would have been encountered in having the large producers place 100 percent of their allotments in the ARP.

2. Massachusetts

Massachusetts producers executed 867 agreements placing 2,883.66 acres, or 65 percent of the State's total type 52 tobacco, in the program, calling for compensation of $961,072.16. In addition, two agreements were executed, placing 10.65 acres, or 25 percent of its total type 51 tobacco allotment, in the program and calling for compensation of $3,775.34. The high degree of participation in the program

in Massachusetts was also sponsored by the new manufacturing process described previously. There were no contracts executed in the State amounting to $10,000 or more.

The average rate paid per acre in Massachusetts was $333.28. In this regard the staff learned that prior to the initiation of soil bank in 1956, tobacco producers in Massachusetts and Connecticut also, believed that the payment rate would be $100 per acre. The staff also learned that these producers hoped for a payment rate of $150 an acre and they were overjoyed when the payment rate was announced to be in excess of $300 per acre. The staff learned that in 1956 this matter had been brought to the attention of the Soil Bank Division in Washington, who informed the State representatives that, if the yield figures for Massachusetts' previous production history would substantiate a rate of $300 an acre based on the announced rate of 19 cents a pound, there could be no dispute about the high rates authorized for type 51 and type 52 tobacco.

The staff was further informed that it was believed that a rate of $150 an acre would have been just as successful in attracting acreage into the program as the rate which was finally paid in 1956. The staff also learned that, if the rate was in excess of $300 in 1956, it could not be cut below that amount in 1957, or participation would diminish substantially.

3. North Carolina

North Carolina participation covered two types of tobacco, namely, flue-cured and burley. The following represents a summary of the participation in tobacco by North Carolina producers.

Type of tobacco	Number of agreements	Acres in acreage-reserve program	Maximum compensation	Percent of allotment (acres)	Percent compensation to State allocation
Flue-cured	13,949	25,557	$5,998,856	5.5	47.2
Burley	1,010	423	130,830	4.2	33.9

The average payment for flue-cured tobacco is $234.73 an acre and for burley is $309.29 an acre.

Mr. Horace Godfrey, ASC State administrative officer, Mr. A. P. Hassell, Jr., Chief of the Administrative Division, and Mr. E. W. Avent, soil bank program specialist, advised that the base payment rate for tobacco in North Carolina was 18 cents a pound for both flue-cured and burley. These officials felt that the relatively small participation in the tobacco ARP percentagewise can be accounted for by the following:

1. Wide disparity between soil bank rate of payment and the existing market price. The market price for flue-cured tobacco ranges between 50 to 55 cents per pound and for burley is between 63 to 64 cents per pound. It was pointed out to the staff that ARP payments for wheat, cotton, and corn in North Carolina were approximately 50 percent of the support price but for tobacco it was only approximately 35 percent. These officials felt that an increase in the ARP payment rate to 25 cents per pound would increase participation.

2. The 1957 participation was limited due to the ARP payment limit of $293 an acre for flue-cured and $340 an acre for burley according to these officials who stated that the dollar limit had been removed for the 1958 program with the only restriction being on yields which is held to 125 percent of the county average check yield for the 1950–55 period.

3. On burley farms the allotments are generally very small (the 1957 average burley allotment was approximately six-tenths of 1 acre) and family labor is used with little, if any, outside labor needed. The ARP program is generally unattractive for this type operation.

4. On flue-cured tobacco farms the average allotment was approximately 3.75 acres and when the farms were set up to obtain top utilization of their facilities and labor the ARP was not attractive to producers.

5. Desire of landowners to perpetuate long-standing agreements with qualified tenants to insure full-allotment production and maximum income from tobacco crops.

6. Reluctance of the landlord to enter his allotted acreage in the ARP and pay the tenant on the same ratio as previous crops had been shared.

The officials contacted felt that the tobacco ARP payments of $6,129,686 aided in reducing the production of tobacco and allowed some part-time farmers to concentrate on other types of endeavor after placing their allotment in the ARP. They felt that to some extent this helped reduce the surplus problem. They did not feel that the weather in 1957 had any material effect upon participation, but gave the following as some reasons for the 1957 participation:

1. In the Piedmont area, where participation was heaviest, about 80 percent of the farmers are part-time farmers, with one or more members of their families engaged in industrial or other type of work, and in these cases the ARP participation allowed a more extensive pursuit of such off-farm work.

2. Many farmers participated in a sincere effort to reduce production.

3. An unfavorable labor situation on some small family-type farms where the farmers were aged and/or where the children had left the farm for off-farm employment.

4. In Wake County tenant farming on a share basis is not the usual practice, and tobacco land had been renting for between $100 to $125 an acre. In such cases the owners could realize more from the ARP than renting the land. Mr. Charles Hester, ASC county office manager, advised that a large part of the county's participation was from farms with absentee landlords or from farms which had labor shortages.

5. Some participation was due to the fact that the tobacco land needed resting and the owners considered it good business to participate.

The North Carolina State ASC officials stated there were no 1957 tobacco ARP payments in excess of $5,000.

These officials likewise stated that in selling a farm with a tobacco allotment the tobacco allotment was considered worth approximately $1,000 an acre, to which is added the value of the other allotments

(cotton worth approximately $100 an acre and wheat $50), value of improvements and the value of the timber in establishing the selling price of a farm. No instances of land speculation were known to the officials contacted.

XII. Economic Impact of Acreage Reserve Program

A. GENERAL

During the staff's survey of the soil bank, inquiries were made concerning the economic impact of the ARP taking acreage out of production. These inquiries were made of State and county ASC personnel, agricultural equipment manufacturers and dealers, banks, and other interested parties.

While little factual data was available, expressions of opinion were obtained relating to the economic impact on both the farmers as individuals and the local communities. The inquiries showed that many factors should be considered in evaluating this question, among which are the following:

1. Weather, drought or flood, is a factor which not only sponsors participation in the ARP, but removes acres from production through natural means. Indicative of the influence that drought may have on production is the fact that as of August 1, 1956, the USDA had designated portions of 14 States as disaster areas. Within these States producers in 336 counties or parts thereof were eligible to participate either under the emergency feed grain program or under the soil bank grazing program. By October 8, 1956, the number of counties or parts thereof designated as disaster areas within these 14 States had increased to 596. In some areas the drought had lasted for as long as 6 to 7 years. In direct contrast to the drought, Mississippi, Arkansas, Texas, and other States in the southern Cotton Belt suffered from exceptionally heavy rains during May and June 1957 which delayed planting or washed away young plants, which reduced production of cotton and, in some instances, rice. In several southern counties the staff learned that excessive rain, which reached flood proportions, had cut production as much as, or more than, the ARP.

2. Farming practices have a decided bearing on the economic impact of the ARP. Some areas produce several crops (i. e., wheat or barley and corn or grain sorghums) which permits diversion to nonallotted crops when land is placed in the ARP.

3. Intensification of production has increased yields which has minimized the economic impact of participation in the ARP.

4. The economic impact of the ARP varies from one State to another and also varies between counties within the various States. The impact varies according to the commodity generally produced in the area, the percentage of participation, the degree to which the community is dependent upon agriculture, and the extent to which the need for farm labor is reduced. In some areas the allotments are small and the farming is done entirely by the family. In such communities, when land is placed in the ARP, the members of the families generally obtain industrial or other type of employment. In other communities with large allotments, other than family labor is utilized and, therefore, ARP participation will reduce the demand for labor and have some impact on the community.

The Farm Equipment Institute and three major farm equipment manufacturers advised this staff that they had conducted no survey on the economic impact of the ARP.

However, an executive of one of these firms stated that the ARP obviously has benefited drought-stricken farmers in the western and southwestern areas. He advised that any acreage reduction plan would seem to require less farm equipment. This, he said, is not necesarily true, because experience has shown that acreage reduction programs usually result in more intensive cultivation of the allotted acres which may require more equipment. Further, the purchase of farm equipment is usually related to the ratio between prices farmers receive for their products and the cost of equipment. He concluded that the ARP may have an effect upon the demand for equipment, but if it does, it will be only one of many influences, and it would be difficult to isolate and measure the effects of the ARP in an objective manner.

The major oil companies advised they had made no survey of the impact of the ARP.

B. AREA OPINIONS CONCERNING ECONOMIC IMPACT

Differences of opinion concerning the economic impact of the ARP were noted in various areas of the country. A summary of the information obtained by the staff will be set forth below. It should be realized that the opinions expressed are, for the most part, opinions of individuals and are not supported by factual information.

1. Arizona

Pinal County ASC personnel advised that several large producers had put a substantial percentage of their cotton allotment in the ARP for which they each had received payments in excess of $50,000.

One Pinal County committeeman said the producers in the county considered the ARP to be a "joke." It was his opinion not one of the producers that entered the program did so for the purpose of reducing the cotton surplus. Rather, they participated because it would benefit them financially. He said that for years these large producers desired to rearrange and level their farms but were unable to do so because they could not afford to take the land out of production. With the ARP they were able to do this and still get paid their profit margin for the cotton they would have produced. He expressed the opinion that the improvement in this land would be reflected in increased cotton production next year.

The staff learned that this heavy participation was concentrated in and around the town of Eloy, Ariz. Business in Eloy suffered severely because of this heavy participation, since local business depends on the spending by farm labor which was virtually eliminated by the large ARP participation.

2. Arkansas

State and county ASC personnel said that the heaviest production of cotton in Arkansas is in the Delta area in the eastern part of the State. Production in this area is pretty well mechanized and participation in the ARP is relatively small percentagewise. For these two reasons it was stated that little labor would be displaced by participation in the ARP and the economic impact of such participation would be relatively small.

The staff learned that, percentagewise, producers in the counties of Hempstead, Faulkner, Bradley, and White were among the heaviest participants in ARP. Since most farms in these counties are family operated, little labor would be displaced by such participation. This would minimize the economic impact.

State and county ASC personnel said that there would be an adverse economic effect on general business within any community in which the producers participated heavily in the ARP, particularly if there was considerable displacement of farm labor. It was stated that those businesses which depend directly on the production of cotton would be affected the most.

The staff ascertained that the cotton ginners in Arkansas have complained that the ARP adversely affects their business. However, the staff determined that three ginners themselves participated in the ARP.

The staff learned that in 1957 rain hampered the preparation of land, delayed planting, and caused replanting, in many areas. Several counties were designated disaster areas because of excessive rain and the opinion was expressed that in some counties weather probably reduced cotton production as much as, or more than, participation in the ARP.

The ASC personnel expressed the opinion that the impact with respect to riceland placed in the ARP would not be severe. It was pointed out that the State rice allotment is 399,038 acres, of which 53,188 acres have been placed in the ARP. Most of the acreage placed in the ARP is concentrated within 5 counties. The opinion was expressed that, since very little hired labor is used for the production of rice, any economic impact would be felt principally by lending agencies, farm machinery dealers, and electric power and fuel distributors.

3. California

On April 26, 1957, the Bank of America published a bulletin entitled "Impact of the Acreage Reserve Program on the Economy of California," which bulletin indicated that approximately 259,055 acres on 5,519 farms had been placed in the 1957 ARP. This represented 28, 21, and 9 percent, respectively, of the allotted wheat, rice, and cotton acreage. Payments to California farmers will amount to about $15 million, which is 57 percent of the funds originally allocated to California.

The bulletin estimated that the net income of California farmers participating in the ARP would be increased approximately $700,000 if they could reduce labor costs in the same proportion that production was reduced.

The bulletin indicated that the ARP would have a broader impact on the overall economy of California, as some of the reduced costs to farmers would represent reduced income to other segments of the economy. In this regard, it was estimated that overall income of the State would be reduced by about $8 million, because less would be spent for seed, fertilizer, electricity, fuel, chemicals, machinery parts, and services furnished by elevators and gins by those participating in the ARP. This estimate did not include losses due to reduced farm labor employment, transportation services, and secondary and tertiary processing of farm products.

The bulletin estimated that about 55,000 acres that would have been summer fallowed had it not been for the ARP would be diverted to barley, and indicated that the value of this barley was considered when estimating the economic effect of the ARP. It was further stated that the land placed in the 1957 ARP would no doubt show improved yields when put back into production and said this increased productivity was of questionable economic advantage.

4. Colorado

Cheyenne County ASC personnel advised that 94.6 percent of the county's entire wheat allotment was placed in the ARP. They attributed this large participation to the extreme drought in the area.

ASC personnel expressed the opinion that the ARP had helped the individual farmers and probably the community, too. They said 5 large producers who had placed 100 percent of their wheat allotment in the ARP had suffered severe financial reverses because they had gambled on the weather when they attempted to farm marginal land. These 5 producers received ARP payments ranging from approximately $25,000 to $40,000 each.

5. Kansas

A representative of an oil company located at Wichita, Kans., informed the staff that it had expected a decline in the demand for gasoline and oil in the Kansas farm area, but the decline did not occur. He said that it did not materialize because the reduction in wheat acreage was offset to a great extent by an increase in acreage in grain sorghums, a nonallotted crop. It was explained that normally Kansas farmers plant about 4 million acres of grain sorghums, but during 1957 they planted nearly 7 million acres.

He also said that he felt the ARP has been a lifesaver for many drought-stricken farmers in Kansas. While the ARP was not intended to be a drought-relief program, he felt many farmers in the western part of Kansas would have been unable to obtain credit except for the ARP.

Two officials of banks located in western Kansas, and one official of a bank located in central Kansas advised that they felt the ARP had a beneficial economic effect on both the farmers and the local community. They said ARP prevented many farmers who had suffered drought losses from going into bankruptcy. Participation in the ARP made it possible for these farmers to pay off past debts and obtain loans to continue their farming operations.

An equipment dealer in western Kansas said he felt the ARP has benefited both the individual farmers and the local community. He said anticipated ARP payments have made it possible for farmers to buy equipment.

An elevator operator in western Kansas said the ARP provided drought relief to farmers in his area. From this point of view it had provided farmers with income they would not otherwise have had because of the extreme drought. He said the ARP has not cut production because there would have been little production anyway.

Persons contacted in western Kansas expressed the opinion that participation in the 1957 ARP was caused by extreme drought at the time of the signup for winter wheat. They said, because there had been good rainfall during the spring of 1957, they anticipated

much less participation in the 1958 ARP, particularly if there was additional rainfall during the balance of the year.

It should be emphasized that the above comments were made by persons located within the drought area of Kansas. According to USDA, as of October 8, 1956, 79 counties or parts thereof, of the 105 Kansas counties, were eligible as disaster areas for some form of emergency relief.

Indicative of the influence of weather on ARP participation is the fact that one wheat producer in western Kansas canceled a 1957 ARP contract for approximately $10,000 and paid a civil penalty of over $5,000. This action was apparently prompted by good spring rainfall in this producer's area.

6. Mississippi

County ASC personnel of the several counties visited in Mississippi were of the opinion that the economic impact of the ARP would not be too great because participation was not too heavy. ASC personnel of one county that had 10 percent participation in the ARP said they expected little adverse economic impact because 1957 production of cotton probably would exceed 1956 production despite the ARP. In another county ASC personnel indicated that 1957 production probably would be approximately 20 percent less than 1956 production. This decrease was attributed largely to late planting due to heavy spring rain and to excessive damage to the cotton by boll weevils, and not to the fact that this county participated in the ARP to the extent of about 10 percent of its allotment.

Another view expressed by ASC officials in some counties was that much of the participation in the ARP was by farmers having allotments of from 5 to 10 acres. These farmers normally farm their own land without using any outside labor and, therefore, when they participated in the ARP, they did not displace any farm labor. It was further pointed out that when this size farm was placed in the ARP the farmer and his family generally obtained industrial employment which would minimize the ecenomic impact on the local community.

The staff learned that mechanization of farms, which started some time ago, has caused a gradual migration of farm labor to the industrial north; largely for this reason there is little or no surplus of labor and all farm dayworkers are able to obtain either farm or nonfarm employment.

ASC personnel acknowledged that, if participation was heavy in a county that depended substantially on the production of cotton, the economic impact upon the local community could be severe. The consensus was that, even without heavy participation, any business which depended directly upon the volume of cotton production, such as equipment dealers, seed dealers, and fertilizer dealers, would be adversely affected by the ARP. Cotton ginners also have expressed opposition to the ARP, but until the size of the 1957 cotton crop is determined the economic impact upon ginners is speculative. It is interesting to note that some cotton ginners in Mississippi, who also operate cotton farms, have participated in the ARP.

With respect to rice, the staff learned in Washington County that rice driers will be particularly hard hit because 42 percent of the county's allotment for rice was put in the ARP. One rice drier at Hollandale, Miss., said he handled 65,000 barrels of rice in 1956 but,

as a result of the ARP, he would probably handle only 50,000 barrels in 1957.

A banker in north-central Mississippi said participation in the ARP by farmers within a specific community may have a decidedly adverse effect upon the business of the community. The degree to which a particular community is adversely affected depends upon the extent to which it is dependent upon agriculture and the extent of participation in the ARP. He said he was principally concerned with the fact that the ARP takes money out of circulation in a community where it normally would be circulated. He said the ARP is set up to net the farmer approximately what he would net by growing cotton. As an example, he said if cotton is worth $200 a bale and it costs the farmer $110 to grow a bale, the farmer should receive approximately $90 from ARP. The result is $110 is never put into circulation in the community. He said there is an economic theory that money put in circulation multiplies approximately seven times and if this theory is accepted, the lost gross income to any county participating heavily in the ARP would be substantial and would adversely affect the community.

7. Montana

The staff was informed by ASC personnel that Montana producers normally follow a 2-year rotation cycle. When a producer participates in the ARP, he normally designates his fallow land for the ARP and plants barley on the land that would have been planted to wheat. By this device the producer receives an ARP payment that would approximate the return on wheat plus the proceeds from his barley production. This, it was stated, minimizes the effect of ARP.

An owner of a chain of grain elevators in Montana said thus far the ARP had had little effect on his operations. He gave as the reason the fact that producers who participated in the program planted additional quantities of barley and this resulted in utilization of normal elevator capacity. In this regard this elevator operator estimated that barley production in Montana would exceed 1956 production by 9 million bushels.

An official of a bank located in north-central Montana said his bank felt that the ARP program was too much a "giveaway." He explained that in most instances the producer who participates in the ARP puts his poorer land in ARP or seeds his normal cropland in some other crop and receives payment for the land that lies fallow.

8. Oklahoma

The economic impact of ARP in the Lake Texoma region of Oklahoma and Texas is difficult to estimate. County ASC officials of both States pointed out land that had been placed in the ARP was under approximately 30 feet of water in June 1957.

The staff was advised by the ASC officials that a delegation from Oklahoma had requested the USDA to reopen the ARP to allow producers to include their flooded land in the program. This was not done, but the severe floods in the two States indicate that weather conditions play an important part in determining production. In 1956 the crops in this territory were destroyed by drought, whereas in 1957 they were destroyed by floods. When either drought or flood is a factor, it is difficult to measure the economic impact that is attributable to the ARP.

9. South Dakota

Officials of two banks in central South Dakota advised that they had noted little economic effect of the ARP on the community, but said any discernible effect has, in their opinion, been good.

An equipment dealer in central South Dakota said any program which restricts production will have an adverse effect upon sale of farm equipment. He said his sales for March and April 1957 were the worst for these 2 months for many years, and he attributed this in part to the ARP. This dealer expressed the opinion that the program will not be effective in reducing production because of more intense cultivation of the planted acres.

Another equipment dealer in western South Dakota expressed the opinion that the ARP has had a beneficial effect upon his business because it has enabled farmers to keep up payments on equipment purchases, or has enabled them to buy new equipment.

The consensus of ASC personnel of the counties visited was that ARP was very beneficial to farmers during 1956 because of the extreme drought. However, they, too, expressed the opinion that participation in the ARP in 1958 will be reduced by at least 50 percent because their areas had good rainfall during the spring of 1957.

It should be emphasized that the counties visited in South Dakota were designated as disaster areas by the USDA as of October 8, 1956. It is significant that part or all of 35 of 68 South Dakota counties were disaster areas on that date.

10. Texas

The consensus of ASC State and county personnel was that the ARP would adversely affect the business of the local community if participation was heavy and the community depended to a great extent upon agricultural income. It was their opinion that the adverse effect would fall mostly upon those businesses which depend on the production of cotton or wheat. This opinion is based upon normal weather conditions in the area involved. However, in Deaf Smith County, Tex., where there has been a drought for 7 years, individuals who are interested in agricultural production in that county advised this staff that the ARP was a "lifesaver" to the farmers because they had reached the limit of their credit and the compensation they received under the program helped in a great measure to stabilize the economy of the county.

The fact that weather, either drought or flood, influences participation in the ARP is indicated by the following:

Two rice producers, Brazoria County, who placed their entire rice allotment in the 1957 ARP, said weather was the major factor in their decision to participate in the ARP. They explained that it was raining the first week in March 1957 and they would have had to wait 3 weeks or more to plant, even if the rain stopped immediately. They decided not to gamble on this and placed their entire acreage in the ARP. One of these individuals received an ARP payment in excess of $20,000 and the other a payment of over $50,000.

Six cotton producers in Cameron County, who placed a substantial percentage of their allotment in the 1957 ARP, said the primary reason for doing so was the low water supply during the signup period. They explained that their land is irrigated by water obtained from a dam and that the water level at this dam was extremely low, thereby

making it uncertain as to whether they would obtain sufficient water to irrigate their farms. Two of these producers mentioned that the "closing of the spread" between cost and selling price of cotton was another factor which influenced their decision to participate in the ARP. These producers signed ARP contracts which called for payments ranging from $25,000 to over $200,000. In some instances the payments were to be divided between several owners and/or tenants.

The Lubbock Cotton Exchange, Lubbock, Tex., furnished the staff with a copy of a release dated April 11, 1957, which evaluated the economic effects of the ARP on the economy of the south plains. This release pointed out that producers in 20 counties in the south plains had placed 64,116 acres of cottonland in the ARP for 1957, for which they would be paid approximately $2,500,000.

The Lubbock Cotton Exchange calculated that, based upon this participation, lost gross income would amount to approximately $4,950,000, which amount represented reduced expenditures for seed, harvesting, ginning, and other expenses that would have normally been incurred had the land not been placed in the ARP. The release also stated that the value of a bale of cotton is enhanced about seven times in its journey from producer to consumer. The value of the lost cotton due to ARP participation was estimated at $8,250,000.

Since the USDA feels that the cotton grown on land placed in ARP would have been exported, it is believed that this theory is not valid and should not be used in measuring the economic impact of the program.

The secretary of the Lubbock Cotton Exchange said while the economic effect of the ARP in the south plains counties was negligible due to small (3 percent) participation in the program, it would be substantial in any county in which a sizable percentage of the land was placed in the ARP.

The Texas Cottonseed Crushers Association, Dallas, Tex., advised that restricted production through allotments maintains fictitiously high prices. This encourages foreign production of cotton and domestic production of synthetic fibers.

C. DEPARTMENT'S ESTIMATE OF ECONOMIC IMPACT

During the hearings before the subcommittee of the Committee on Appropriations, House of Representatives, 85th Congress, 1st session, the USDA submitted an estimate of the economic effect of production lost because of participation in the ARP. This estimate indicated that farm expenses could be reduced approximately $360 million and marketing charges by about $180 million, or a total of $540 million.

The opinion was expressed that it was possible that farm expenses would not be reduced by $360 million because of the probability that some of the resources released from production as a result of the ARP would be utilized either in other farm or nonfarm activity.

The Department's estimate assumed that, had the wheat, cotton, and rice been produced on land placed in the ARP, the commodities would have been exported. It also assumed that some of the tobacco would have been exported, and took into consideration the cost of the normal period of storage for these commodities.

D. CONCLUSION

The staff feels, based upon its limited survey in this matter, that in areas which have been subject to severe drought year after year the ARP has had a beneficial effect on the farmer as an individual and probably also on the general community.

In areas where weather tends to be more normal or in irrigated areas where water is not a factor, it is believed that participation in the ARP probably has an adverse effect upon the local community because less money is put into circulation. The impact would be the greatest in areas in which the displacement of farm labor represents an important factor in the economy of the community.

The extent of the impact is difficult to calculate because, as indicated herein, there has been considerable diversion to barley, grain sorghums, and other nonallotted crops when allotted acreage has been placed in ARP. In this connection, the December 17, 1957, crop report shows corn production for 1957 was 3,402 million bushels and grain sorghums 562 million bushels, or a total of 3,964 million bushels. During 1956 production of corn and grain sorghums totaled 3,661 million bushels.

While approximately 5 million acres of cornland of a total allotment of 37 million acres were placed in the ARP, the total planted acreage for corn was approximately 73 million acres. Since there are no marketing quotas for corn, the placing of corn acreage in the ARP may not have the expected economic impact because of the probability that, as more acreage is placed in the ARP, noncompliers will increase their production. It would appear that noncompliance with corn allotments has been encouraged by the fact that a noncompliance commercial support price has been established for 1956 and 1957 corn by the USDA.

Several persons, in evaluating the economic impact of ARP, have stated that the value of a bale of cotton is enhanced from 6 to 7 times as it moves through trade channels from the producer to the consumer.

Since the USDA feels that cotton grown on land placed in the ARP would have been exported, it is believed that this theory is not valid and should not be used in measuring the economic impact of the program.

XIII. Government-Leased Land in 1957 ARP

A. GENERAL

The staff previously reported, with respect to the 1957 ARP, that four producers in the State of Kansas placed land in the program which had been leased from the Government. In the four instances cited, the producer received more for placing a portion of the land in this program than he paid to the Government for leasing the entire section.

The report also pointed out that, on May 21, 1956, the President issued a memorandum which laid down rules for future operation of land leased from the Government. The language of this memorandum appears to be in agreement with section 125 of the Soil Bank Act which was approved by the President on May 28, 1956, and states:

The President shall, with respect to farmlands now or hereafter owned by the Federal Government, restrict insofar as practicable the leasing of such lands for the production of price-supported crops in surplus supply.

The effective date of this limitation was July 21, 1956. In accordance with this memorandum, leases are now written so that surplus crops may not be grown. However, there are exceptions, which must be approved by the leasing agency, under which tenants may continue to grow surplus crops. Theoretically, leaseholders who have such authority could place their allotments in the ARP, and many of them do so.

Inquiry at both the USDA and the Department of Defense indicated that there was no information at the Washington level as to the amount of Government-owned acreage which had been leased to private individuals and which was subsequently placed in the soil bank. This staff was informed that the only way that such information could be obtained would be for the staff to go to the counties in which the land was located and compare the identifying data in the leases with the soil-bank records.

In view of the fact that it was estimated that there was approximately 1.4 million acres of Government agricultural land leased out by the various departments of the Government, the staff's survey was limited to those leases executed by the Department of Defense. In this regard, the Department of Defense presented a summary of the agricultural land leased as of June 30, 1956, which showed that approximately 1.266 million acres were involved. However, it was subsequently learned, through interviews with Defense officials and through investigation at the county level, that the amount of agricultural land leased represented only a fraction of this figure. The balance of the land was leased for grazing purposes.

In conducting the survey, the staff visited 12 States in various sections of the country, confining its efforts to the larger installations within these States. It is to be noted that the soil-bank-program provisions prohibit the placing of Government-leased land in the CRP.

Considerable difficulty was encountered in identifying the tract of land which was placed in the soil bank as being either Government owned or privately owned, because in numerous cases a tract of Government-owned land had been merged with privately owned land and the producer's final allotment represented a pro rata share from each tract of land. Cases of this type are not being reported. Difficulty was also encountered in cases where the producer, who placed land in the soil bank, sublet the land from the original lessee.

The staff's investigation reflected that the major activity in placing leased Government-owned land in the ARP was in the State of Nebraska. However, the staff found this same type of participation in other States. The cases cited are those where it was apparent that the land placed in ARP was Government owned.

B. FINDING BY STATES

1. Nebraska

(*a*) *Naval ammunition depot, Hastings, Nebr.*—The naval ammunition depot consists of 48,753 acres and is situated in both Adams and Clay Counties, Nebr. The Navy leases 151 tracts of land, consisting of 46,271 acres, to 35 individuals. As the leases expire, the Navy grants new leases to producers submitting the high bid on a sealed-bid basis. As of May 31, 1956, the leased acres consisted of the following:

	Acres
Agriculture	19,540
Clover and/or alfalfa	14,152
Grazing and hay	12,579

The depot received for 1957 1 overall corn allotment of 1,994 acres and a wheat allotment of 10,581 acres. For the year 1957, rental of the various tracts of land ranged from 16 cents an acre up to $18.30 an acre, and averaged $6.03 an acre. For leasing 46,271 acres of land, the Government received an annual rental of $279,044.83. This land has been leased to private individuals since 1947, and the current leases run for a term of 5 years.

Mr. Walter Davis, farm manager at the depot, advised that, due to the provision of the Soil Bank Act of 1956 which states that price-supported commodities in surplus could not be grown on Government land, the depot leases will all be restricted by 1960. He said that, as each lease expires, the new lease will contain restrictive clauses prohibiting the production of the aforesaid type of commodity. Mr. Davis further advised that, in addition to the monetary benefit the Government receives, the lessees provide a very valuable service to the Government by keeping the grass mowed between the ammunition magazines, maintaining fireguards, and upkeep on some roads. He said that he had no official cost estimate of these services but that, from his observation, he believed them to be worth a minimum of $200,000 a year.

It is to be noted that, while the staff was in Nebraska in connection with this inquiry, there was publicity in the Omaha Sunday World Herald under date of May 5, 1957, indicating that the Government as a landlord in Nebraska was paying its tenants more not to use its land than they paid the Government to farm it. It was ascertained further, in contacts with local representatives, that there was considerable resentment on the part of former owners of the land because of the soil-bank situation at the depot. The staff learned that the owners of the land had, in 1942, been subjected to condemnation proceedings when the Government required the land for the building of the depot during World War II. They are now in a position of seeing the land, which is considered to be about the best farmland in Nebraska, being leased predominantly to outsiders who are reaping soil-bank benefits.

The ARP contracts applying to the naval ammunition depot are administered in Clay County. An examination of agreement No. 125, dated September 19, 1956, indicated that it was executed in the name of the naval ammunition depot by W. W. Davis, farm manager. The agreement indicated that, out of a total wheat allotment of 10,581 acres, 3,525 acres had been placed in the ARP at a rate of $21.25 an acre. The maximum compensation under the contract was $74,906.25.

Agreement No. 425 indicated that, out of a total corn allotment of 1,994.9 acres, 245 acres had been placed in the soil bank at a rate of $24 an acre. The maximum compensation for this contract amounted to $5,880. This contract also was executed in the name of Mr. Davis. The total of the 2 ARP contracts amounted to $80,786.25. Further examination of the 2 contracts indicated that the ARP compensation for wheat was prorated to 14 firms or individuals. In the case of the corn contract, the payment was prorated to five firms or individuals. The

actual participation and compensation by the various lessees is as follows:

	Wheat		Corn	
	Acreage-reserve program acres	Pro rata payment	Acreage-reserve program acres	Pro rata payment
Askey & Son	30	$599.25		
Glenvil Alfalfa Mills, Inc	360	7,640.44		
H. & K. Farms	360	7,640.44	65	$1,558.20
Cleo Harmon	475	10,112.34		
Hequembourg & Schlick	200	4,269.66		
Edward N. Hertel	70	1,498.12		
Alvin Henricks	60	1,273.40		
Dale Henricks	50	1,048.69		
Hultman Bros	40	823.97		
Kral & Lukow	450	9,588.00		
Morrison & Quirk	1,100	23,370.75		
Phelps Bros	150	3,220.97		
Lawrence W. Traudt	120	2,546.81	30	717.36
Hills Construction Co	60	1,273.41		
Andy Sherman [1]			30	717.36
Emory R. L'Heureux			50	1,205.40
George Schmidt			70	1,681.68
Total	3,525	74,906.25	245	5,880.00

[1] Lessee of land is Mulliner & Wehrman.

An attempt was made to make a comparison between the acreage reserve payment as indicated above with the cost of renting the tract involved. This was not possible from the information available and, therefore, the comparison is restricted to the overall ARP payment and the overall rental cost.

In connection with the ARP participation at the depot, Walter Davis advised that in 1956 various lessees came to him to see if they could place land in the ARP. He said he turned them down on the theory that it did not appear logical or economical for the Government to rent land and then turn around and pay a tenant for not producing on the land. He said that he attempted to do the same thing in 1957; however, certain of the lessees pointed out to him that the Army was permitting it at their installations and they could not understand why the Navy would not allow it. He said he was unable to meet such an argument and, therefore, the participation was allowed. He stated that the soil bank participation was handled in the manner described previously, because although the depot land was leased to several producers it was considered as only one farm unit. He said that, after discussing the matter with the appropriate ASC officials, they directed a letter to him indicating how the participation should be handled. There are set forth below the pertinent paragraphs of a letter directed to Mr. Davis from the Nebraska ASC Committee, dated September 11, 1956:

> We have made a thorough search of the records in Clay County and are unable to apply crop history on the individual tracts of land which you now have included in the leasing agreements with the 35 farmers who are leasing land thereon. As a consequence, there is no way to establish wheat acreage allotments or corn acreage allotments on the individual tracts, except by cropland ratio method which we understand would be highly unsatisfactory both to you and the farmers concerned.

In view of this, we would recommend that if you and the farmers holding leases on this land desire to participate in the 1957 acreage reserve program that you handle all this land as one farm. We furthermore recommend that you sign the agreement form with the Government as the "operator" of the farm and handle the payments which will be due the individual lessees on the same basis as if they were field tenants. In handling this in this manner, it would be necessary for the county ASC office to require only your signature on the agreement form. On the other hand, it would be necessary for you to control the acres of wheat and corn planted on each individual lease in order to be sure that the "permitted acres" of wheat and corn were not exceeded on the entire naval depot. This will also mean that it will be necessary for you to list on a form CSS–801 the names and addresses of all of the payees who are to receive a portion of the payment and the percentage of the entire payment they are to receive.

At a meeting with the Nebraska State ASC Committee on September 12, 1956, Mr. Davis stated that some of the lessees at the depot did not wish to place any land in ARP while others wanted to place all of their wheat acres in ARP. Mr. Davis was informed that this would be permissible as long as the maximum acreage placed in the reserve did not exceed 50 percent of the allotment for the entire depot. The agreements show that the land placed in ARP did not exceed 50 percent of the allotment.

From a review of the soil bank operations at the naval ammunition depot at Hastings, Nebr., it is apparent that the producers who participated in the ARP benefited materially from the program. By placing 3,770 acres of land in the ARP, which represents approximately one-twelfth of the total acreage rented, they received more than $80,000 or about one-third of the cost of renting the land. The principal participator in the program at the depot was Morrison & Quirk, and their participation was not limited to this location.

In Saunders County, Nebr., the firm of M. B. & Q. Farms entered into 2 ARP agreements in the county's 1957 program which totaled $27,716.10. These agreements are:

No. 871 covering 748.8 acres of cornland at $35 an acre and calling for a maximum compensation of $26,208.

No. 870 covering 45.7 acres of cornland at $33 an acre and calling for a maximum compensation of $1,508.10.

This land is part of 4,148 acres of land leased by M. B. & Q. Farms from the Department of the Army and is situated at the Nebraska ordnance plant. The firm pays a rental of $41,654 for this acreage, or an average unit rental of $10.04 an acre.

The three principals of this firm, a partnership, are named Morrison, Brown, and Quirk. The staff learned that the partnership was an affiliated company of the firm operating at the naval ammunition depot at Hastings. Thus, these two interrelated firms received ARP payments totaling $51,086.85 which will be among the largest, if not the largest, payments in the State of Nebraska. The staff was further informed that the principal interest of these two companies is the production and processing of alfalfa. In addition, the firm operates feed lots at the depot in connection with its cattle operations. The point the staff emphasizes is that, although the firm may provide valuable services to the defense installations in connection with the mowing of grass and the maintenance of fireguards and roads, it very probably took into consideration the cost of performing such services when it bid for the land at both installations. It seems to this staff that, not only were the participants in this program at these military

installations paid for not growing price-supported crops and surplus, but even the administrative details in connection with the contracts were assumed by the Government.

(*b*) *Cornhusker Ordnance Plant, Grand Island, Nebr.*—In Hall County, Nebr., Phelps Bros., a partnership, executed ARP agreement No. 104, placing 150 acres of land in the 1957 winter wheat ARP. The contract was at the rate of $15 an acre and called for compensation of $2,250. The land placed in the soil bank represented a portion of 173 acres rented by the firm from the Cornhusker Ordnance Plant. The rental rate was $5.31 an acre. The total rental amounted to $918.63. It can be seen from this that the producer received approximately three times more from the Government for placing the land in soil bank than he paid as rental for the land involved.

The Hall County records further reflect that the same firm also executed ARP agreement No. 12 placing in the 1957 ARP 42.6 acres of land at a rate of $36 an acre. This rate was subsequently modified to $24 an acre and the modified contract called for maximum compensation of $1,022.40. This land was a portion of the 158 acres rented by Phelps Bros., from the Cornhusker Ordnance Plant. The rental rate was $6.41 an acre for a total rental of $1,012.78. It will be seen that the firm recaptured more than its entire rental payment by placing approximately one-quarter of the acreage in the soil bank.

(*c*) *Nebraska Ordnance Plant, Wahoo, Nebr.*—(1) *ARP payment on rent-free land.*—On February 8, 1957, the Foundation Seed Division, College of Agriculture, Lincoln, Nebr., entered into agreement No. 996, placing 20 acres of cornland in ARP, at a rate of $34 an acre, for total compensation of $680. This acreage, which was part of tracts A–12 and B–104 leased on a rent-free basis from the Nebraska Ordnance Plant, included a corn allotment of 64.3 acres.

A review of leases of the Nebraska Ordnance Plant disclosed that tracts A–12 and B–104, which consisted of 505 acres, were leased to the Department of Agriculture (Nebraska) by permit on a no-rent basis. In response to the staff's questions on this matter, the Department stated that the foundation seed division, which is part of the agronomy department of the University of Nebraska, had a "use permit" allowing them to use the land free of charge for experimental and nursery purposes. The Department points out that none of the experimental work done on these farms was "supported by appropriated funds." The Department further advised that corn allotments had been established on these farms since the inception of the corn allotment program. However, the foundation seed division had always complied with its corn allotments and never requested commodity loans.

The staff questions the logic of permitting an organization the use of land free of charge, and then giving the organization additional payments for participating in the ARP.

(2) *Other payments on Nebraska Ordnance Plant land.*—The staff's further investigation of the Nebraska Ordnance Plant reflected 11 other contracts executed by lessees of Government land placing the land in the 1957 corn ARP. The details of these contracts are listed below:

Lessee	Total acreage	Rental per acre	Rental total	Number of acreage-reserve program acres	Rate per acre	Total
Smith, John H	100	$6.57	$657.50	20.0	$35	$700.00
Hass, Raymond	80	4.00	320.00	26.3	35	920.50
Larson, Donald [1]	83	5.01	416.00	26.1	35	913.50
Fleming, Mrs. R. C.[2]	171	8.56	1,463.21	53.3	35	1,865.50
Johnson, Allan	231	11.10	2,564.30	79.9	35	2,796.50
Reiss, Ben G	456	11.87	5,412.72	170.8	33	5,636.40
Mika, Lloyd	89	6.16	548.35	27.8	33	917.40
Novy, A. L	82	10.07	826.00	25.0	34	850.00
Appleby, Floyd E	268	10.30	2,760.00	104.2	33	3,438.60
Munsterman, Harvey	645	18.55	11,965.95	160.9	35	5,631.50
Schulz, Harland H	80	11.11	888.81	20.0	35	700.00

[1] Acreage-reserve program agreement in name of Joe C. Haba, Wahoo, Nebr.
[2] Acreage-reserve program agreement notes that Mrs. Charlotte Fleming is cash renter but Dale Johnson of Mead, Nebr., is payee of agreement.

In reviewing the above, it will be noted that 9 of the 11 producers listed received more for placing a portion of the Government-leased land in the soil bank than was paid for renting the entire piece of land. The chief exception to this was producer Harvey Munsterman, who paid a total rental of $11,965.95 for leasing 645 acres and received $5,631.50 for placing 160.9 acres in the soil bank. However, the schedule does indicate that the average rate per acre paid in rental was $18.55 and the rate paid for ARP participation was $35 per acre, or approximately double the rental cost.

2. Arkansas

(*a*) *Nimrod Reservoir, Yell County, Ark.*—In Yell County, Ark., Winifred Hopper and Albert Smith executed 3 ARP agreements, Nos. 109, 110, and 111, placing in the 1957 ARP the entire cotton allotments on these farms totaling 16.9 acres at a rate of $48 an acre. They were paid $811.20. This land represents a portion of the 543.5 acres which Winifred Hopper leases from the Corps of Engineers at a net rental of $285. The lease indicates that the gross rental is $400.50, less a credit for maintaining fences of $112. The balance of $288.50 was rounded off in establishing the lease rental per year. Thus, the lessee receives approximately three times the rental for placing a fraction of the land in the ARP.

In Yell County, W. M. Tippy executed ARP agreement No. 2 placing in the 1957 ARP his entire cotton allotment of 27.8 acres at a rate of $48 an acre. He was paid $1,334. This land represents a portion of 483.5 acres which Mr. Tippy leases from the Corps of Engineers at an annual net rental of $275. The gross rental for all land is $326 annually, less a credit for maintaining fences of $56. In establishing the rental for this lease, a figure of $270 was rounded off at $275. By participating in the ARP, this producer received more than four times his rental expense for placing a small fraction of the acreage in the program.

(*b*) *Blue Mountain Reservoir, Logan County.*—On February 5, 1957, Robert Maxwell executed agreement No. 68 in Logan County, placing his entire cotton allotment of 8 acres in the ARP at a rate of $42 an acre. He received $336. This land represents a portion of 70 acres which Mr. Maxwell leases from the Corps of Engineers for a total annual rental of $65. He received five times his annual rental for placing a fraction of the leased acreage in the program.

3. Colorado

(*a*) *Rocky Mount Arsenal, Denver, Colo.*—In Adams County, Colo. Arthur W. Eppinger executed ARP contract No. 262, placing 186 acres of land in the 1957 winter wheat ARP, at the rate of $22.23 an acre with a maximum compensation of $4,134.78. This represented his entire wheat allotment. The land placed in the ARP was part of 610 acres leased from the Rocky Mount Arsenal, at a rate of $5.54 an acre. In other words, the producer rented 610 acres, paying $3,378.10 to the Government and received $4,134.78 from soil bank for retiring 186 acres from the production of wheat.

4. Mississippi

(*a*) *Enid Reservoir, Panola County.*—On February 6, 1957, C. E. Wilbourne executed ARP agreement No. 255, placing in the 1957 ARP his entire cotton allotment on this farm of 6 acres, at a rate of $64 an acre. He was paid $384. This land represents a portion of 51 acres which Mr. Wilbourne leases from the Corps of Engineers at a total annual rental of $65. He received more than five time his annual rental for placing a fraction of the acreage in the program.

In Lafayette County, Robert D. Jones executed agreement No. 135, placing in the 1957 ARP his entire cotton allotment of 12.3 acres, at a rate of $47 an acre. He was paid $578.10. This land represents a portion of 126 acres of land situated at the Enid Reservoir which Mr. Jones leases from the Corps of Engineers at a total annual rental of $140.

(*b*) *Grenada Reservoir, Grenada County.*—On March 6, 1957, Hiram Davis executed ARP agreement No. 88, placing in the 1957 ARP his entire cotton allotment of 36.3 acres at a rate of $75 an acre. He was paid $2,722.50. This land represents a portion of 145 acres which Mr. Davis leases from the Corps of Engineers at a total annual rental of $200. His compensation from soil bank was approximately 13 times his rental cost.

In Grenada County, C. G. Ligon executed ARP agreement No. 95, placing in the 1957 ARP 10 acres of his 24.2-acre cotton allotment, at a rate of $97 an acre. He was paid $970. This land represents a portion of the 99 acres which Mrs. Lena S. Ligon leases from the Corps of Engineers at an annual rate of $150. The lessee is a widow of the former lessee, and the ARP agreement is in the name of a relative who operates the farm. The soil bank compensation was approximately six times the annual rental cost.

In Calhoun County, S. O. Lee executed ARP agreement No. 280, placing in the 1957 ARP his entire cotton allotment of 10.5 acres at a rate of $70 an acre. He was paid $735. This land represents a portion of 62 acres situated at the Grenada Reservoir which Mr. Lee leases from the Corps of Engineers at a total annual rental of $125.

Also in Calhoun County, J. C. Willis executed ARP agreement No. 328, placing in the 1957 ARP his entire cotton allotment of 10 acres at a rate of $70 an acre. He was paid $700. This land represents a portion of the 98 acres which Mr. Willis leases from the Corps of Engineers at a total annual rental of $120.

5. Oklahoma

(*a*) *Lake Texoma region*—(1) *Love County.*—G. H. Jones executed agreement No. 103 in this county, placing his entire cotton

allotment of 104.7 acres in ARP at a rate of $35 an acre. This contract called for maximum compensation of $3,664.50 and is the largest contract executed under the 1957 ARP in the county. The land involved is part of 356.5 acres which Mr. Jones leases from the Corps of Engineers, Department of the Army, in the Lake Texoma region. A review of the lease indicates that he pays a rental of $5 an acre for the cropland involved, and his total annual rental is $1,882.50 a year less a credit for services rendered to the Government of $92 a year, or a total net rental of $1,790.

In reviewing the lease file, the staff's attention was directed to an appraisal report indicating that the leasehold value for the area involved was comparable to prices paid for similar land leased from private individuals in the area. The appraisal report also indicated that consideration was given to the fact that price-supported crops in surplus could not be planted on the land. It will be seen from this illustration of the soil bank in operation in Oklahoma that the producer received approximately twice as much from soil-bank participation as he paid in annual rental fees for the land involved.

Under agreement No. 205, L. E. Wood placed his cotton allotment of 16.5 acres in the acreage reserve. The contract called for maximum compensation of $577.50, and the rate per acre for the farm was $35. This land represented cropland leased from the Corps of Engineers, Department of the Army, which Mr. Wood rented at $5 an acre. A review of the lease indicated that the producer leased approximately 50 acres of land for agricultural and grazing purposes at a gross rent of $160 a year, less a credit for services rendered of $14 a year, making his net annual rental to be $146 a year.

By agreement No. 181, William Jones placed his cotton allotment of 5 acres in the soil bank at a rate of $29 an acre for a total contract amount of $145. A review of Mr. Jones' lease reflected that the land involved was a portion of 23.5 acres he rented from the Corps of Engineers for grazing purposes for a total amount of $25 a year. Although the lease indicated that the land involved was pastureland, the lease was placed in the soil bank as cropland.

In another instance, W. F. Rains executed agreement No. 174 placing his cotton allotment of 25.5 acres in the soil bank for a maximum compensation of $816. This was based upon a rate per acre of $32. Mr. Rains obtained this land by leasing 473.5 acres from the Corps of Engineers at a rental of $1,601.50. The lease covered cropland and grazing land, and for the cropland Rains paid $5 an acre. In other words, he received $32 an acre for the land under soil bank and paid $5 an acre in rental charges.

(2) *Marshall County.*—On February 19, 1957, Paul E. Dickerson and Leeroy Page executed agreement No. 74 placing in the acreage reserve 11.9 acres of cotton land at a rate of $35 an acre. Maximum compensation under the contract was $416.50. Dickerson leased 95 acres from the Corps of Engineers, paying a rate of $5 an acre for 80 acres of cropland, and he agreed to reseed 15 acres in the tract for which he received a credit of $30 a year. His net rental, therefore, was $370 which was less than he received for participating in the soil bank.

On March 12, 1957, L. L. Looney executed agreement No. 75 placing his cotton allotment of 46.9 acres in the soil bank at a rate of $35 an

acre. His maximum compensation was $1,641.50. This land represented a portion of a tract rented by Looney from the Corps of Engineers covering 105 acres at an annual rental of $750.

In some instances, it was noted that the appraisals for leased land in the Lake Texoma area gave consideration to the fact that price-supported commodities in surplus supply could not be planted on the land. Still, the leased land had cotton allotments and, in at least two instances, the entire allotments were placed in ARP. It would appear that, since the land had a cotton allotment, a price-supported commodity could be grown and the appraisal was incorrect.

6. Pennsylvania

(*a*) *Susquehanna Ordnance Plant, Williamsport, Pa.*—In Lycoming County, Pa., Arthur Yeagle executed agreement No. 84, placing in the 1957 ARP 20 acres of cornland at a rate of $53 an acre, or total maximum compensation of $1,060. This land is a part of 51 acres of land which Mr. Yeagle leases from the Susquehanna Ordnance Depot at an annual rental rate of $102.50 a year. It may be seen from these facts that for the land which Mr. Yeagle leases from the Government he pays approximately $2 an acre, but when he places it in the soil bank he receives $53 an acre. It is apparent that he realized approximately 10 times more from his soil-bank contract than he pays in annual rental for the property.

7. Texas

(*a*) *Lake Texoma region.*—In Cooke County, Tex., E. J. Riddle placed 24.6 acres, his entire cotton allotment, in the soil bank at the rate of $28 an acre for a total of $688.80. Riddle leased this land from the Corps of Engineers for agricultural and grazing purposes, paying a net rental of $212 a year for approximately 517 acres. The appraisal report of the Corps of Engineers indicated that the lease covered 52.5 acres of cropland at $3 an acre or $157.50. The remaining acreage was grazing and waste land which was leased for $128 a year. The lessee received a credit for reseeding 61.5 acres of the land, making his net annual rental $212.

The appraisal report also indicated that the rental rates gave consideration to the fact that price-supported commodities in surplus could not be planted on the land.

(*b*) *Garza-Little Elm Reservoir* (*Lewisville Dam*).—James Borth, acting office manager, Denton County ASC office, furnished information indicating that 23 ARP agreements had been signed and approved, placing 313 acres of land in the cotton ARP program. These agreements called for compensation of $7,553.60. The rate of payment ranged from $19 to $27 an acre. The land involved was leased from the Government in the Lewisville Dam area. An examination of the leases at the Corps of Engineers office at Fort Worth indicated that all of the leases contained clauses restricting the lessee from cultivating or growing certain price-supported crops including cotton. The leases further indicated that the rental area ranged from $1.25 to $3 an acre. Staff interviews with officials of the Denton County and State ASC offices indicated that these contracts were executed due to a misinterpretation of instructions. In view of this information, the Production Adjustment Division of CSS was requested to advise

whether these agreements had been paid or what remedial action had been taken with respect to them since their discovery. The pertinent paragraphs of a responsive memorandum dated December 18, 1957, from CSS follow:

> We have been advised by the Texas State office that none of these agreements have been paid. All are being held pending further instructions from this office as to the action that should be taken. The Texas State office further reports that the farmers did receive leases that were restricted to prohibit the production of surplus commodities, including cotton. They further report that these leases were properly mailed to farmers in January 1957 but the office of the county committee received no notice from the Corps of Engineers that any restricted leases were in existence. The first information received by the county office was obtained from your staff. After this, the Corps of Engineers sent the State office a list of these leases and the list was mailed to the Denton County committee in July 1957.
>
> Information currently available to this office through the Texas State office is to the effect that many of the leases do not involve the entire acreage of farms owned by these producers. In the latter part of 1956 the Denton County office manager visited the Corps of Engineers in Fort Worth on two different occasions, trying to ascertain the location and extent of any leases that may have been made to farmers. He was unable to obtain definite information.
>
> It appears that we will be unable to take final action with respect to these cases until a careful survey has been completed to determine the extent of coverage by restricted leases of the land in each of the farms in question. Under the acreage-reserve-program regulations no compensation will be made under any agreement covering land under the restrictive Government leases. You will be given a further report as soon as the next survey can be completed and the proper final action determined.

8. Other States

It is to be noted that a further survey covering four installations in Kansas disclosed no cases of Government-owned land in the 1957 ARP other than those previously reported by the staff. Similar surveys for four installations in Illinois, Montana, and South Dakota were negative.

In California contact with ASC county offices covering 7 installations reflected that at 6 of them no Government-owned land had been placed in the ARP. At the seventh, Hunter-Liggett Military Reservation, where approximately 126,000 acres of land were leased by the Government, 3 lessees placed land in the wheat ARP. From a review of the Monterey County ASC office records and the Corps of Engineers leases, it was not possible to determine definitely whether the land placed in the ARP was Government owned or privately owned. The three producers operate their own adjoining land with the leased land as single units and with one overall allotment covering the combined operation.

XIV. Large Payments National ARP

Pursuant to the staff's request, on December 16, 1957, CSS furnished a tabulation of payments of $50,000 or more made to participants under the 1957 ARP. The staff was advised that this list was preliminary in nature and subject to alteration in the future when cross-checking across State and county lines was completed. These payments were for wheat, cotton, and rice. There were no payments of $50,000 or more for corn and tobacco. The largest of these payments were $33,246.20 for corn in Indiana, and $32,595.28 for tobacco

in Connecticut. The tabulation listed 67 payments, which totaled $5,313,794.71 and averaged $79,310.37 each. In reviewing the tabulation it was noted that each firm stood as an entity and the affiliation between companies was not recognized. As an example, 3 payments appeared on the list as follows:

	Amount
J. W. Baughman, Liberal, Kans	$102,357.21
J. W. B. Farms and John Baughman Estate, Liberal, Kans	89,522.03
John W. Baughman Farms Co., Liberal, Kans	80,047.58

It is noted that these 3 payments were made to the same interests. It will be noted that in previous consideration of large payments the staff regarded payments to affiliated firms as being paid to 1 enterprise. A review of the 67 payments reflects that Arizona, California, and Texas received 47; Kansas, 6; Mississippi, 5; Louisiana, 2; and Colorado, Arkansas, Idaho, Washington, Oregon, South Dakota, and Tennessee, 1 each.

The individual 67 payments have not been listed since the report is preliminary in nature and will not be accurate until all cross-checking has been completed.

Part II—Conservation Reserve Program

SUMMARY AND TABLE OF CONTENTS

I. Conservation Reserve Program

A. INTRODUCTION

Objective of conservation reserve program (CRP) is to place general cropland to conservation use. Rates for 1956 and 1957 were identical, ranging from $6 to $14 an acre with a national average of $10. Contracts run 3, 5, 10, or 15 years, depending upon conservation practice. Soil Bank Act authorized $450 million for each of years 1956 and 1957. Authorization reduced to $325 million for 1958 by 85th Congress.

B. PARTICIPATION UNDER 1956 PROGRAM

In 1956, producers placed 1.4 million acres in CRP for which they were paid annual payments of $12.4 million. Department also obligated to pay practice payments of $11.1 million when practices performed; therefore, total amount paid and obligated under 1956 program was $23.5 million, or 5.2 percent of appropriated funds. Producers in Texas paid 46 percent of total annual payments.

C. PARTICIPATION UNDER 1957 PROGRAM

Preliminary cumulative figures show 6.5 million acres placed in program during 1956 and 1957, of which 5.1 million acres were in 1957. Goal was 20 million acres. Cumulative annual payments obligated for 1957 total $58 million. Practice payments obligated for 1957 and subsequent years total $60.6 million, of which it is estimated $45 million will be earned during 1957. Therefore, obligated annual payments and estimated earned practice payments during 1957 total $103.1 million, or less than 25 percent of appropriated funds.

Principal reasons for nonparticipation in program are—

1. High land value in relation to CRP payment rate.
2. Farmers' reluctance to sign long-term contracts.
3. Necessity of complying with all allotments and soil-bank-base acreage.

Largest participation was in Texas, New Mexico, Minnesota, North Dakota, Colorado, and South Dakota. Acreagewise, Texas accounted for 24.9 percent, and the 6 States, 64.7 percent.

Survey shows that heaviest participation in Texas, New Mexico, and Colorado was in the drought areas. In 1956, Federal Crop Insurance Corporation (FCIC) canceled crop insurance in 14 counties of these 3 States because it had suffered loss of $18.2 million since 1948. Producers in these counties placed 646,903 acres in CRP, or 9.9 percent of national total.

II. Findings by States

Staff reviewed CRP by State and county level in Texas, New Mexico, Colorado, South Dakota, Mississippi, and Arkansas.

A. TEXAS

Preliminary cumulative figures show participation for 1956 and 1957 amounted to 1.6 million acres. In 1957 annual payments will total $15.5 million and earned practice payments approximately $10.3 million.

Participation in 11 panhandle counties accounted for 22.1 percent of acreage. Deaf Smith County, which has suffered severe drought for 7 years, was largest participant acreagewise. This county presented problems in interpreting $5,000 maximum payment limitation because of division of title and establishment of trusts after enactment of Soil Bank Act.

Three cases set forth showing how division of title affects $5,000 limitation.

Case No. 1 shows how original owner, wife, daughter, and daughter-in-law, after division of title, are receiving annual payments of $19,696.20 for 10 years, or a total of $199,692. Maximum payment to owner alone over 10-year period would have been $50,000.

Case No. 2 shows how sale of land enabled 6 participants to receive annual payments of $28,635.30 for 10 years, with which payments they will pay for land within 6¾ years. Had original owner retained land he could have received only the maximum $5,000 annual payment, assuming land was community property of owner and wife.

Case No. 3 shows how sale of land to relatives enabled 3 participants to increase annual payments from $4,734.90 to $10,631.70.

Three cases are set forth which show how division of title and establishment of trusts affected $5,000 limitation and enabled purchasers to pay for land through CRP payments.

Case No. 1 shows how annual CRP payments increased from $13,707.90 to $36,229.10, which will enable purchasers to pay for land within 10-year period of contract.

Case No. 2 shows how sale of land to relatives and establishment of trusts for relatives increased annual payments from $5,000 to $24,997.50 for 10-year period. Payments will enable purchasers to pay for land within about 7 years.

Case No. 3 shows how annual CRP payments increased from $10,000 to $32,135.50.

B. NEW MEXICO

Preliminary cumulative figures show participation for 1956 and 1957 amounted to 660,263 acres. In 1957 producers will receive annual payments of $5.3 million and will earn an estimated $1.7 million as practice payments. New Mexico only State to exceed acreage goal and it did so by almost 400 percent.

Participation in 7 counties accounted for 76.4 percent of State's total participation. Based on Bureau of Census values, land in 7 counties could be paid for at CRP rate within 1.6 to 6.4 years. Largest participation acreagewise in Curry County (191,821 acres), 35 percent of county's total cropland, caused by long and severe drought. FCIC canceled crop-insurance program for county in 1956 because it had lost $3.5 million insuring crops since 1948.

Files of Curry County Agricultural Stabilization and Conservation (ASC) Office show that on April 11, 1957, a landowner sold 6,260 acres of his farm to 12 individuals, unrelated to him, for $400,710, which was approximtely $65 an acre. No downpayment or interest was required, but contracts for deed with all 12 individuals provided:

1. All liability was conditioned and contingent upon buyer entering into 10-year CRP agreement at $9 an acre for not less than 70 percent of cultivated portion of land.
2. If CRP contract was canceled before expiration of 10 years, buyer was relieved of all obligations.
3. CRP payments sufficient to meet annual payments must be assigned to seller.

On April 12, 1957, 12 buyers placed a total of 4,881.3 acres in CRP for 10 years for which they will receive annual payments totaling $43,919.70. Prior to sale, landowner executed CRP contract for $5,000 maximum payment; therefore, through sales, CRP payments over 10-year period have been increased from $50,000 to $489,197. Staff questions whether this sale could have been made had it not been for the CRP.

C. COLORADO

Preliminary cumulative figures show participation for 1956 and 1957 amounted to 479,929 acres. In 1957 producers will receive annual payments of $3.4 million and will earn an estimated $1.6 million as practice payments.

Participation concentrated in east-central and southeastern part of State which has suffered prolonged drought. Seven counties in this area placed 220,806 acres in CRP, or 46 percent of State's total. FCIC canceled crop insurance for 3 of these counties in 1956. Of the 7 counties, Kiowa (70,742 acres) and Cheyenne (47,872 acres) ranked first and second in the State. ASC officials of both counties attributed heavy participation to severe drought.

Gano Properties, large landowner, sold land in Kiowa County, apparently because of $5,000 limitation. Land sold at $35 an acre under contract which required no downpayment, but required purchaser to place maximum acreage in

both ARP and CRP and assignment of 75 percent of such payments to Gano. Kiowa County ASC officials said land sold by Gano was worth $12 to $15 an acre prior to soil bank. Six purchasers executed 10 CRP contracts in April 1957, placing 2,788 acres of land purchased from Gano in CRP for 10 years at $7 an acre. Annual payments totaling $19,516 will finance purchase of land.

Gano also sold land in Crowley County during 1957 at reported price of $35 an acre. Nine purchasers of Gano land placed 4,614 acres in CRP for 10 years at $7.50 an acre. Total annual payments will amount to $34,597.50. Land reported to be worth $10 an acre. Prior to above sales, Crowley County ASC office suggested that Gano be permitted to place entire eligible acreage of 11,620 acres in CRP at maximum rate of $2 an acre. Department, however, made no exception to $5,000 limitation.

D. SOUTH DAKOTA

Preliminary cumulative figures show participation for 1956 and 1957 amounted to 412,354 acres. In 1957 producers will receive annual payments of $3.5 million and will earn an estimated $3.2 million as practice payments. State and county ASC officials advised participation generally concentrated in drought areas.

CRP rates range from $6 to $12 an acre. Real-estate broker said $6 rate encourages participation by farmer with marginal land, whereas $12 rate discourages participation by farmer with good cropland.

State ASC office proposed all minimum $6 rates be increased to $7. Department denied request, stating $6 rate represents an upgrading in rate, while the $12 rate represents some downgrading, and concluded more information available to substantiate lower rate than higher rate.

Land values of 14 counties with $6 rate indicate land could be paid for at $6 rate within 2.1 to 3.7 years. Participation in these counties was 1.7 percent of cropland; national average was 1.5 percent. Land values for 9 southeastern counties with $10 to $12 rates indicate this land could be paid for at CRP rate within 7.4 to 14.6 years. Participation in these counties was approximately 0.5 percent total cropland.

E. MISSISSIPPI

Preliminary cumulative figures show participation for 1956 and 1957 amounted to 48,970 acres. In 1957 producers will receive annual payments of $486,000 and will earn an estimated $561,000 as practice payments.

State and county ASC officials attributed light participation (13.8 percent of goal) to high land values as compared to CRP rates. They knew of only five contracts which approximated $5,000 limitation.

County officials of Sunflower and Washington Counties, where participation was heaviest, said farmers participated because—

1. They had surplus land for which there was no other use.
2. Crops of soybeans, normally grown, has been poor in recent years.
3. Some farmers are changing from crops to livestock.
4. Small farmers have obtained other employment.

High land values generally precluded land speculation. Purchase of 1,750-acre farm for reputed price of $175,000 cited. Buyer placed 526.3 acres in CRP for 5 years; annual payments will be $4,999.85. Also placed 190.3 acres in cotton ARP for which he will receive $14,653.10 during 1957. Total CRP and ARP payments in 1957 amount to $19,652.95, or 11.2 percent of investment. In addition, buyer may harvest 110.9 acres of cotton and 445 acres of other soil bank base crops during 1957.

F. ARKANSAS

Preliminary cumulative figures show participation for 1956 and 1957 amounted to 61,526 acres. In 1957 producers will receive annual payments of $497,000, and will earn an estimated $701,000 as practice payments.

State and county ASC officials attributed light participation (14 percent of goal) to high land values as compared to CRP rates. They knew of only one $5,000 contract.

City water and light plant, Jonesboro, Ark., placed 653.2 acres in CRP for 5 years for annual payment of $3,543.10. Company owns 920 acres of land with no allotments. For past several years land leased on cash rental basis for $2,000. Company unable to lease land in 1956 and, therefore, placed land in 1957 CRP.

I. Conservation-Reserve Program

A. INTRODUCTION

The staff, in its March 1957 report, set forth information with respect to eligibility of land, terms of contracts, and permissible conservation practices.

The objective of the conservation-reserve program (CRP) is to take general cropland out of production and put it to conservation use. Generally all land used for cultivated crops or for tame hay is eligible. Producers taking part in this program receive an annual payment for the period of the contract. This payment for 1957 was the same as for 1956 and ranged from $6 to $14 an acre, with the national average $10 an acre. They also will receive a practice payment for carrying out a conservation practice on the acreage.

Contracts run for 3, 5, or 10 years if the land is already in an approved cover crop, and for 5 or 10 years if cover must be established. If trees are to be planted as the conservation practice, the contracts may be for 15 years.

Farmers must plant the conservation-reserve acreage to approved grasses, legumes, or trees, or devote it to a soil, water, forest, or wildlife conservation practice. Crops may not be harvested from the reserve acres, and grazing on such acreage is prohibited unless special authorization is obtained due to an emergency. Farmers must comply with all acreage allotments to be eligible for payments under the CRP.

The Soil Bank Act, as passed in 1956, provided that total payments under the CRP could not exceed $450 million in any 1 year. This limitation was effective for both the 1956 and 1957 programs; however, the 1st session of the 85th Congress amended the act to restrict payments under the CRP in 1958 to $325 million.

The Soil Bank Division, in a bulletin dated November 26, 1956, allocated $300 million of the $450 million appropriation for CRP to the various States for the 1957 program. Any State that committed its original allocation could obtain additional funds until such time as the entire $450 million was allocated and obligated. During the spring of 1957, Colorado, New Mexico, South Dakota, Texas, and Utah received additional allocations totaling $22,352,000, which increased the total allocated funds to $322,352,000. It is noted that the obligated annual payments for 1957 and the estimated practice payments which will be earned during 1957 total $103,127,000, or less than 25 percent of the appropriated funds.

B. PARTICIPATION UNDER 1956 PROGRAM

The staff previously reported that preliminary figures showed that producers had placed 1,601,403 acres in the 1956 CRP, for which they were to receive annual payments of $13,792,307. Also, producers had contracted under the 1956 program to perform certain practices for which they were to receive $11,105,946 when the practices had been performed. The preliminary figures, therefore, indicated that total obligated funds amounted to $24,898,253 during the first year of the CRP.

Final figures for the 1956 CRP, released during August 1957, show that 1,428,772 acres had been placed in the CRP, for which producers

were paid $12,400,806 as annual payments, as distinct from practice payments. The final figures also show that producers had earned practice payments totaling $750,328 during 1956; however, the unearned practice payments obligated under the 1956 CRP are now shown. Mr. Kenneth E. Valentine, Program Analysis Branch, Soil Bank Division, said obligated practice payments are not segregated according to year of obligation. He said unearned practice payments obligated under the 1956 program are shown on the records as part of the cumulative total obligated to date. When the producer is paid for a particular practice, the county ASC office indicates the year of obligation so that the payment may be charged against funds for that year.

Mr. Valentine said, while final annual payments were somewhat less than the preliminary figure, it was his opinion that the final amount obligated for practice payments would be approximately the same as the preliminary figure. Therefore, the final amount obligated under the 1956 CRP would be approximately $23,506,752, or 5.2 percent of funds appropriated for the 1956 program.

The final figures show that Texas producers placed 603,227 acres in the CRP, or 42 percent of the total acreage. They were paid $5,701,545, or 46 percent of total annual payments for 1956.

C. PARTICIPATION UNDER 1957 PROGRAM

While the final signup date for the 1957 program was April 15, 1957, the staff has been advised that final figures will not be available until sometime subsequent to February 1958.

The latest progress report issued by the Soil Bank Division compiles data reported through July 15, 1957. This report shows that the cumulative total acreage now in the CRP is 6,537,932 acres, of which 5,109,160 acres were signed up under the 1957 program. The cumulative total annual payments obligated for 1957 are $58,052,000, which indicates that annual payments of $45,651,194 were obligated under the 1957 program. Practice payments obligated for 1957 and subsequent years total $60,604,000, of which amount it was estimated that $45,075,000 would be earned during 1957.

Obligated annual payments and the estimated practice payments which will be earned during 1957 total $103,127,000, or less than 25 percent of the appropriated funds. This is especially significant because the $103,127,000 includes estimated practice payments of $45,075,000 which is a nonrecurring expense.

The staff previously reported the principal reasons for nonparticipation, which reasons included:

1. High value of land in relation to maximum CRP payment rate makes it uneconomical for many farmers to participate.
2. Farmers are reluctant to tie up their land with long-term contracts.
3. Farmers are reluctant to place land in the CRP because, if they do, they must comply with all allotments as well as the soil-bank base acreage.

The following table shows the cumulative acreage goals, cumulative actual acreage, revised allocation of dollars to States, obligated annual payments, and estimated practice payments that will be earned during

1957. Except for the data with respect to goals and revised allocation of dollars to States, the figures set forth were obtained from the July 15, 1957, progress report.

State	Acreage goal (thousands)	Actual acreage signed up	Allocation to States (thousands)	Obligated annual payments (thousands)	Estimated practice payments earned 1957 (thousands)	Total annual and practice payments (thousands)
Alabama	360	58,740	$6,037	$446	$650	$1,096
Arizona	50	7,287	556	99	70	169
Arkansas	435	61,526	7,160	497	701	1,198
California	495	27,996	6,777	266	145	411
Colorado	640	479,929	7,037	3,423	1,597	5,020
Connecticut	27	72	589	1	2	3
Delaware	18	1,053	383	12	20	32
Florida	125	62,232	2,119	459	504	963
Georgia	390	224,689	7,422	1,745	2,174	3,919
Idaho	265	46,496	2,902	355	225	580
Illinois	680	11,367	12,569	131	280	411
Indiana	505	23,587	9,602	247	344	591
Iowa	900	50,715	15,850	573	563	1,136
Kansas	1,385	213,487	15,507	2,146	1,607	3,752
Kentucky	585	20,816	10,516	186	467	653
Louisiana	280	19,469	5,038	136	97	233
Maine	70	36,358	1,424	215	491	706
Maryland	100	12,087	2,147	133	154	287
Massachusetts	35	283	754	2	5	7
Michigan	485	115,029	8,929	875	906	1,781
Minnesota	735	563,474	11,274	5,272	3,017	8,289
Mississippi	355	48,970	6,311	486	561	1,047
Missouri	830	69,814	13,865	593	2,641	3,234
Montana	760	79,915	7,561	680	397	1,077
Nebraska	790	109,213	9,571	878	677	1,555
Nevada	17	13	172	(1)	(1)	(1)
New Hampshire	24	513	482	2	8	10
New Jersey	50	5,512	1,042	61	73	134
New Mexico	135	660,263	9,500	5,340	1,701	7,041
New York	450	80,322	9,258	711	1,380	2,091
North Carolina	275	28,116	4,943	270	432	702
North Dakota	1,200	484,222	12,970	4,668	2,671	7,339
Ohio	480	39,897	9,247	429	461	890
Oklahoma	710	374,560	8,809	3,290	1,591	4,881
Oregon	260	42,139	3,075	443	580	1,023
Pennsylvania	365	37,663	7,265	355	261	616
Rhode Island	4		87			
South Carolina	195	102,752	3,525	901	897	1,798
South Dakota	620	412,354	9,123	3,558	3,206	6,764
Tennessee	520	39,142	9,884	357	979	1,336
Texas	1,680	1,628,977	32,500	15,544	10,324	25,868
Utah	85	75,220	1,255	665	516	1,181
Vermont	70	2,460	1,427	8	33	41
Virginia	260	6,750	5,102	58	83	141
Washington	430	16,109	5,461	179	161	340
West Virginia	110	1,009	2,089	7	8	15
Wisconsin	640	123,390	12,162	1,116	1,271	2,387
Wyoming	120	32,005	1,074	235	144	379
Total	20,000	6,537,932	322,352	58,052	45,075	103,127

[1] $500 or less.

The above table shows that, in terms of acreage, producers in Texas, New Mexico, Minnesota, North Dakota, Colorado, and South Dakota were the largest participants in the CRP. Producers in Texas alone placed 1,628,977 acres in the CRP, or approximately 24.9 percent of the total national acreage. Producers in these 6 States placed 4,229,219 acres in the CRP, or 64.7 percent of the total acreage placed in the CRP.

The staff's survey showed that the greatest participation in Texas, New Mexico, Colorado, and South Dakota is concentrated in counties which had suffered from drought for periods of time ranging up to 7 years.

Officials of the Soil Bank Division confirmed this finding when they stated the prolonged drought in Texas and New Mexico influenced farmers to place land in the CRP as a means of obtaining income while shifting from cultivated crops back to grass and into a livestock economy. They said this shift is indicated by the fact that almost all of the entire acreage placed in the CRP in Texas and New Mexico will be devoted to permanent grass. They said that this land-use adjustment had been advocated for some time by various Government programs, such as the Great Plains program.

Officials of the Soil Bank Division also stated that in Colorado and South Dakota there seemed to be more interest in the CRP in areas where production risks were relatively high, but they said an early and vigorous publicity campaign also was responsible for heavy participation in Colorado, Minnesota, and South Dakota.

The effect of the drought is illustrated by the fact that the Federal Crop Insurance Corporation (FCIC) canceled its crop-insurance program for 14 counties in Texas, New Mexico, and Colorado for 1956 because of heavy losses suffered since 1948. The following is a summary of CRP participation by producers within these 14 counties, together with the percentage that such participation bears to the total for the State. It will be noted that the total acreage placed in the CRP within these 14 counties was 646,903 acres, which represents 9.9 percent of the total acreage placed in the CRP.

State	Acres in conservation-reserve program	Percent of total State participation
Texas	168,258	10.3
New Mexico	318,508	48.2
Colorado	160,137	33.4
Total	646,903	

Since 1948, the FCIC suffered a loss of $18,291,865 insuring crops in these 14 counties. The largest single loss, $3,512,224, was suffered in Curry County, N. Mex., in which county producers placed 191,821 acres in the CRP, or 29.1 percent of this State's total participation.

It is also noteworthy that the FCIC since 1948 has suffered losses totaling $13,449,352 insuring crops in 46 other counties in the Dust Bowl area. Three such counties are Cheyenne, Lincoln, and Kit Carson, in Colorado, in which counties the FCIC has suffered a loss of $3,856,246 insuring crops since 1948. While the FCIC has not canceled its crop-insurance program for these counties, premiums charged to producers have been raised substantially. Producers in Cheyenne, Lincoln, and Kit Carson Counties placed a total of 126,381 acres in the CRP. This acreage, together with that located in counties in Colorado whose FCIC crop-insurance program was canceled, totals 286,518 acres, which represents 60 percent of the total acreage in the entire State of Colorado that has been placed in the CRP.

The staff has been advised by officials of the Soil Bank Division that participation in Minnesota is concentrated in the northern half of the State. Much of this land was timberland prior to World War II, but, with the large postwar demand for lumber, trees were cut from large areas in this part of Minnesota and not replanted. Farmers

attempted to raise crops on the land cleared of trees, but found the land relatively unproductive. Many of the farmers who have placed their land in the CRP have done so with the intention of replanting trees, which indicates a shift from cultivated crops back to the production of timber.

That drought had an effect on the participation in South Dakota is evidenced by the fact that, as of October 8, 1956, part or all of 35 of South Dakota's 68 counties were designated as disaster areas by the USDA.

It will be observed that, except for Texas, New Mexico, Minnesota, Colorado, and South Dakota, the actual acreage signed up was much less than the goals, and the dollars obligated were well below funds appropriated. In this regard, the staff calls attention to the small participation by producers in the commercial Corn and Wheat Belts and in the important cotton-producing States. The reasons for this small participation have been set forth previously.

The CRP Handbook states that State ASC committees shall establish a regular annual payment rate per acre for each county, taking into consideration (1) cash value of land for production of commodities; (2) cash rentals of land for production of commodities; and (3) productivity of land. Officials said that, while no specific instruction are given to the State ASC offices, they were told to be guided by the Bureau of the Census data with respect to land values which include buildings and Agricultural Marketing Service statistics with respect to productivity of land. They pointed out, however, that State offices were not told how to weigh each of the three factors when determining county annual rates.

II. Findings by States

In addition to a general review of the overall CRP with soil-bank officials in Washington, the staff reviewed the program at the State and county level in Texas, New Mexico, Colorado, South Dakota, Mississippi, and Arkansas. The purpose of the survey at the State and county level was to determine:

1. Reason for heavy or light participation in program by producers.
2. Extent to which program caused land speculation and relationship of land values to CRP rates.
3. Extent to which $5,000 limitation has been circumvented by establishment of trusts, partnerships, or sale of land.

The data with respect to participation is that reported through July 15, 1957. No adjustment was made to the figures contained in the progress report, because any differences noted as a result of a review of later records at the State or county level were minor.

The Soil Bank Division furnished the staff with statistics prepared as of May 31, 1957, that show the percentage of cropland by counties that has been placed in the CRP. These percentages are based on total cropland compiled by the Bureau of the Census during 1954, as no other cropland figures are readily available.

Unless otherwise stated, when the staff compares land values to CRP rates and participation of producers within specific counties to total cropland within such counties it has used the 1954 Bureau of the Census data as the basis for the comparison.

A. TEXAS

Producers in Texas have placed 1,628,977 acres in the CRP, which is approximately the goal of 1,680,000 acres that was originally established by the Soil Bank Division. For this participation, producers in Texas will receive annual payments in 1957 totaling $15,544,000, and it is estimated that they will earn practice payments totaling $10,324,000 during 1957.

While 226 counties of Texas's 254 counties participated in the CRP, an analysis of participation showed that 371,060 acres, or 22.1 percent, of the total acreage placed in the CRP was in 11 counties in the Panhandle.

The following table summarizes the participation in these 11 counties and shows the relationship of land values to the CRP rates established for the counties:

County	Acres in conservation-reserve program	Percentage cropland in conservation-reserve program	Average conservation-reserve program rate	Land value	Ratio, land value to conservation-reserve program rate
Armstrong	16,364	10.2	$10	$50.29	5.3
Briscoe	15,083	9.9	10	86.23	8.6
Childress	28,685	16.4	10	47.03	4.7
Collingsworth	32,783	14.8	10	66.84	6.7
Dallam	64,028	23.8	8	43.44	5.4
Deaf Smith	102,854	22.4	9	89.26	9.9
Hall	24,243	10.7	11	55.12	5.1
Hartley	24,093	11.3	9	35.04	3.8
Hemphill	10,085	11.7	9	32.86	3.7
Oldham	23,816	18.4	9	28.39	3.2
Wheeler	29,026	17.2	9	44.67	5.0
Total	371,060				

It is to be noted that land in the 11 counties in the Panhandle could be purchased and paid for at the CRP rate within a period of time ranging from 3.2 years for land in Oldham County to 9.9 years for land in Deaf Smith County. It should be emphasized that the land values set forth in the above table are those compiled by the Bureau of the Census in its 1954 agricultural census and represent the average value of all farmland, including the value of buildings.

Mr. W. K. Schoonover, Office of General Counsel, USDA, advised that the Department's regulations for CRP provide that the total of all annual payments under the CRP to any producer with respect to all farms in which he has an interest shall not exceed $5,000.

Mr. Schoonover advised, however, that the regulations do provide that with the approval of the Secretary, annual payments may exceed $5,000 if all eligible land on a farm is placed in the CRP or if the erosion hazard makes it advisable to waive the $5,000 limitation. The staff was also advised that no contracts in excess of $5,000 have been approved as an exception by the Secretary.

Mr. Schoonover confirmed information the staff received to the effect that the USDA had encountered more problems in interpreting the $5,000 limitation in Deaf Smith County than in any other county in the country because of division of title and establishment of trusts.

In order to understand the problems involved in the administration of the program, there are set forth below some of the pertinent regulations and the Department's interpretation of them:

The Department defines the word "producer" as follows:

"Producer" means any person who is an owner, landlord, cash tenant, standing-rent tenant, fixed-rent tenant, share tenant, or sharecropper on the farm, and includes a person who furnishes water for a share of the crop or proceeds thereof.

Mr. Schoonover advised that the Department's interpretation of a producer includes any person who is an owner, whether it is a tenancy in joint or in common. This makes all individual owners of land eligible to participate in the CRP up to the maximum of $5,000. It also makes a partnership a person providing the partnership was established prior to the enactment of the Soil Bank Act. According to Mr. Schoonover under this interpretation owners in common who maintain a partnership as an operator are entitled to $5,000 for each individual and $5,000 for the partnership. A partnership which is a land owner is entitled to only $5,000. Land owned in common and leased for operation to a partnership, each owner is entitled to $5,000 and the partnership is limited to $5,000.

The Department's original regulations also provide:

All or any part of the annual payment which otherwise would be due any producer may be withheld, or required to be refunded, if he has adopted, or participated in adopting, any scheme or device designed to evade, or which has the effect of evading, the limitation established by this step.

1. "Scheme or device" includes the dissolution, reorganization, revival, formation, or use of any corporation, partnership, estate, trust, or any other means designed to evade, or which has the effect of evading, these provisions.

By amendment dated May 10, 1957, the Department's instructions with respect to schemes or devices were supplemented as follows:

(*a*) * * * Effective as of the date of this amendment, a family trust created after August 15, 1956, shall be considered a scheme or device to evade the $5,000 maximum annual payment limitation if it results in the settlor (person who creates the trust) and beneficiaries of the trust receiving in the aggregate annual payments for any year in excess of $5,000 for all land placed in the conservation reserve. For the purpose of this provision, a family shall include the husband or wife, children, their husbands and wives, and other members of the immediate household. * * *

The Department's interpretation of a trust permits one or more trusts in a household providing that the settlor and beneficiaries do not receive in the aggregate annual payments in excess of $5,000. This provision, however, did not take effect until May 10, 1957. Mr. Schoonover advised that if there was any contract approved prior to May 10, 1957, which contained a trust established after August 15, 1956, this contract could be reviewed by the Office of the General Counsel to determine whether the trust was a scheme or device to evade the $5,000 limitation.

While no specific instructions were issued by the Department to the county offices, Mr. Schoonover advised that when the Department learned of any problems of trusts arising in the counties, they were instructed to send the cases to Washington for review prior to approving the contracts.

The regulations covering trusts were further amended effective November 27, 1957, by adding the following:

Effective with respect to contracts entered into on or about November 15, 1957, for the purpose of this section, a family shall include grandchildren of the settlor, stepchildren of a child of the settlor, and any minors related to the settlor by blood or marriage.

Mr. Thomas E. Hamilton, Deputy Director, Soil Bank Division, stated that the purpose of this amendment was to further strengthen the regulations regarding the establishment of family trusts for the purpose of participating in the CRP.

1. Deaf Smith County

Mr. F. G. Collier, county ASC office manager, advised that Deaf Smith County consists of 1,507 square miles, or aproximately 964,480 acres. Cropland within the county totals 580,650 acres, 193,550 acres of which are irrigated and 387,100 are dry.

Producers in Deaf Smith County have placed 102,854 acres in the CRP for which they will receive annual payments in 1957 totaling $952,244. In addition, it is estimated that they will earn practice payments of $363,135 during 1957.

Mr. Collier advised that almost all the land placed in the CRP was dry land located in the western part of the county and, therefore, it will be observed that approximately 26.6 percent of all the county's dry cropland has been placed in the program. Mr. Collier said, while the land placed in the CRP is as good as the irrigated land in the eastern part of the county, the lack of moisture has made it less productive.

Mr. Henry Carder, program specialist, Texas State ASC office, advised that Deaf Smith County, acreagewise and moneywise, had the greatest participation in the CRP of any county in the State. He stated he had made several inquiries into the reasons for this heavy participation and gave the following as the reasons:

1. The county is one of the largest counties in the State and has many producers who own or operate large farms.
2. When the dry land in the western part of the county was first broken out about 25 years ago, too much was broken out and, with the advent of wheat allotments, there was more land than was needed for crop production.
3. The county has suffered a severe drought for the past 7 years and the CRP enabled the farmers to place part of their land in the program as a "cushion" to insure a fixed income.
4. The program assisted the farmers to return some land to grass, enabling them to do more diversified farming, including not only the raising of wheat and grain sorghums, but also cattle.
5. The county office had done an excellent job in selling the program to the farmers and producers.

Mr. Collier confirmed the fact that producers in the western part of Deaf Smith County have suffered from a severe drought during the past 7 years. He stated that soil bank base crops grown in this area are wheat and grain sorghums. When his office computes a farm's soil bank base, it uses as a guide the farm's wheat allotment, since this is a matter of record. Since his office has no record of a farm's production of grain sorghums, it is necessary to take the farmer's word for the number of acres devoted to the production of grain sorghums. He stated that this done only if his office feels that the acreage figures given to the office by the farmer are reasonable.

Mr. Collier stated, however, that allowance is made for drought, and if the farmer had tilled his land and was ready to plant either wheat or grain sorghums but could not do so because of the drought, the acreage would be included as soil bank base acreage.

While the CRP regulations provide that acreage devoted to soil bank base crops may be adjusted upward or downward by the county committee "when necessary to make due allowance for abnormal weather conditions," the staff believes that, in areas of severe drought, the county committees have interpreted this regulation too liberally when fixing soil bank base acreage.

State and county ASC officials estimated dryland values in the county at from $60 to $90 an acre. Mr. A. J. Schroeter, owner of A. O. Thompson Abstract Co., Hereford, Tex., estimated that dryland was worth from $50 to $75 an acre. Mr. V. O. Hennen, executive vice president, First National Bank, Hereford, Tex., concurred with Mr. Schroeter's estimate.

Mr. Schroeter said that shortly after the soil bank was announced, his business more than doubled for a period of 3 or 4 months, indicating a large number of land transfers. Mr. Hennen also advised that, after the soil bank was initiated, nonresidents bought or attempted to buy land in the county. However, farmers soon increased the price of their land and, within a few weeks, this type of land speculation ceased.

(*a*) *Contracts involving division of title.*—The staff reviewed a sample of Deaf Smith County's CRP files, particularly those that were modified due to division of title or indicated that the $5,000 limitation may have been exceeded. The following are three cases illustrating division of title:

Case No. 1: During 1956, Mr. Albert F. Roberts, Adrian, Tex., owner of a 3,392-acre farm, was negotiating with the county ASC office to place sufficient acreage in the CRP so that both he and his wife could obtain the $5,000 maximum payment. The ASC office would only permit Mr. Roberts to place enough acreage in the CRP to obtain one maximum payment of $5,000 because it considered the farm to be community property between Mr. Roberts and his wife.

On November 5, 1956, Mr. Roberts signed CRP contract No. 41 placing 552.3 acres in CRP for 10 years for an annual payment of $4,970.70.

The county court records reflect that the following deeds were recorded on October 16, 1956. On that date, A. F. Roberts deeded to his wife, Irma, for $1 and other valuable considerations, as her separate estate, 640 acres of the farm. In another deed, A. F. Roberts and his wife deeded to one N. P. Spradley, for the same consideration, 640 acres of the farm. In a third deed, N. P. Spradley conveyed the same land back to A. F. Roberts, as his separate estate, for $1 and other valuable considerations.

By deeds recorded on January 10, 1957, A. F. Roberts and his wife, for $10 and other valuable considerations, deeded to their daughter, Alice Roberts Barker, 640 acres of the farm, as her separate estate. In a second deed, Roberts and his wife, for $10 and other valuable considerations, deeded 640 acres of the farm to their daughter-in-law, Harriett Blum Roberts as her separate estate.

On January 10, 1957, A. F. Roberts and members of his family to whom he had deeded portions of his farm offered modified CRP contract No. 41–A. In this contract, A. F. Roberts offered to place in the CRP for 10 years the same 552.3 acres which he placed in the CRP by contract No. 41, in 1956. His wife, Irma Roberts, his daughter,

Alice Roberts Barker, and his daughter-in-law, Harriett Blum Roberts, each offered to place 555.5 acres in the CRP for a period of 10 years for an annual payment of $4,999.50 each. As a result of this contract, it will be seen that Roberts and his relatives offered to place 2,218.8 acres in the CRP for a total annual compensation of $19,969.20.

On April 12, 1957, Irma Roberts filed a petition in the district court (State court) of Deaf Smith County, Tex., asking that her marital disabilities be removed and specifically asking the court to ratify her CRP contract with the Federal Government. On April 13, 1957, the court ordered the removal of the marital disabilities of Irma Roberts and ratified her powers to enter into a CRP contract with the Federal Government.

Mr. Collier advised that because of the divisions of title and the court action, the county office would not approve the contract and submitted it to the State ASC office for a determination. By memorandums dated April 23 and May 9, 1957, the State office advised that it concluded that the partition of the land between the members of the family was a scheme or device for the purpose of participating in the CRP in excess of the $5,000 limitation.

Mr. Collier stated, however, that by memorandum dated May 29, 1957, the State office reversed its previous decision and said that modified CRP contract 41–A should be approved if the daughter and daughter-in-law were adults. The State office made this decision after discussing the contract with the Soil Bank Division and indicated the decision that each of the 4 persons could participate in the program to the extent of the maximum $5,000 limitation was based upon the fact that each of the parties are separate and apart from each other as far as owning and operating the tracts of land and Mr. Roberts himself would receive no benefit from the payments made to the other parties.

By the transfer of title to specific tracts of land owned by Roberts, Roberts and his relatives will receive an annual CRP payment of $19,969.20 for 10 years or a total of $199,692. Had Roberts not subdivided his land as described above, total payments on this land over a 10-year period would have been limited to $50,000.

It is noted that Alice Roberts Barker resides in Carmel, Calif., and Harriett Blum Roberts in Sabetha, Kans.

Case No. 2: On July 11, 1951, Walter B. Mills and his wife, Bonnie, purchased a farm of approximately 3,580 acres for $196,900. By six deeds recorded on November 20, 1956, Mills sold specific tracts of this farm to Bertie O. Bagwell, Donald L. Bagwell, Johnnye Bagwell Doshier, T. L. Leach, James Elliott Weeks, and James Elliott Weeks, Jr., for $187,950. Mr. Collier advised that all of these purchasers are related by blood or marriage, but to his knowledge are not related to Mills.

On November 21, 1956, these 6 individuals signed CRP contract No. 104, placing 1,914.6 acres in the CRP for 10 years for an annual payment of $17,231.40. Mr. Collier said more land was not placed in the 1956 CRP because the land was in crop production.

On December 20, 1956, the same 6 individuals signed modified CRP contract No. 104–A, placing an additional 1,267.1 acres in the CRP for 10 years at an additional annual payment of $11,403.90. This modification brings the total acreage in the CRP to 3,181.7 acres and the annual payments to $28,635.30. Had Mills and his wife not sold

this land, Mills would have been entitled to only the $5,000 maximum payment annually, assuming that the land was community property.

Since the farm cost $187,950, the new owners will be able to pay off the cost from annual CRP payments in 6¾ years. Mr. Collier said this farm is operated as one unit by the husband of Johnnye Bagwell Doshier. It is significant that, according to Mr. Collier, 2 of the purchasers are housewives, 1 a professor and another an attorney.

Case No. 3: On October 24, 1956, Mr. E. H. Kromer, owner of a 2,692.6-acre farm with a soil-bank base of 1,782.5 acres, signed contract No. 78, placing 526.1 acres in the CRP for 10 years for an annual payment of $4,734.90.

Three deeds were recorded on November 27, 1956, involving division of title on this farm. E. H. Kromer and his wife, Nell, deeded to their son, W. Keith Kromer, 640 acres of their farm for a consideration of $28,844.80 secured by a vendors' lien for that amount at 4-percent interest, to be paid in 10 equal installments. In addition, the son assumed his proportionate share of Kromer's indebtedness of $40,000 on the farm, which was $9,555.20.

In another deed, Kromer and his wife deeded to their son-in-law, Bedford Harrison, Jr., 640 acres of their farm under the same terms.

In a third deed, Kromer and his wife deeded 640 acres to Thomas W. and Charlotte Risley, for $22,444.80 and their proportionate share of Kromers' indebtedness of $40,000 on the farm. The Risleys did not participate in the CRP.

On December 28, 1956, Bedford Harrison, Jr., and W. Keith Kromer, together with E. H. Kromer, signed modified contract No. 78–A. In this contract, E. H. Kromer placed the same acreage in the CRP as he had on October 24, 1956. Bedford Harrison, Jr., placed 329.4 acres in the CRP for 5 years at an annual compensation of $2,964.60, and W. Keith Kromer placed 325.8 acres in the CRP for 10 years at an annual compensation of $2,932.20.

As a result of the modified contract, acreage placed in the CRP increased from 526.1 to 1,181.3 acres and the compensation from $4,734.90 to $10,631.70.

(*b*) *Contracts involving divisions of title and trusts.*—The following are three cases involving divisions of title and establishment of trusts:

Case No. 1: For the past several years, Tom J. Boyd has owned a 8,797.4-acre farm in the county and his 3 sons, Richard B., William David, and Thomas B. Boyd, have operated the farm.

On November 23, 1956, Tom J. Boyd, Richard B. Boyd, and William David Boyd signed contract No. 2, placing 1,523.1 acres in CRP for 10 years at an annual compensation of $13,707.90. Shortly thereafter, Tom J. Boyd sold portions of this farm to various individuals, none of whom were his relatives.

By a deed recorded December 7, 1956, Boyd and his wife, Cleo, sold 640 acres to O. J. Cotton for $33,600. Boyd purchased this land on August 6, 1946, for $15,000.

On June 4, 1957, O. J. Cotton signed contract 2–B–2, placing 555.8 acres in CRP for 10 years at an annual compensation of $5,000. At this rate, Cotton will be able to pay for this land from annual payments in approximate 6¾ years.

By deed recorded December 19, 1956, Boyd and his wife sold 1,280 acres to R. H. Cotton, trustee, for $76,800. By a declaration of trust dated May 16, 1957, signed by R. H. Cotton, 640 acres of the 1,280 acres were held by Cotton under a trust agreement dated March 18, 1957, created by T. Carr Forrest, Jr., and his wife, Ruth, for the benefit of their 5 grandchildren. The trust is to be administered as five separate trusts, each holding a one-fifth interest in the property. The trust shall terminate upon the reaching of age 21 by the youngest grandchild, or by the trustee after any beneficiary reaches 21, but in no case may it be terminated in less than 10 years.

On June 4, 1957, R. H. Cotton, trustee, signed CRP contract No. 2–B–4, placing 555.5 acres of this land in the CRP for 10 years at an annual payment of $4,999.50. At this rate, the land will be paid for by CRP payments in less than 8 years.

By a trust agreement dated March 18, 1957, James A. Cotton established a trust for his four children with R. H. Cotton as trustee. This trust was for the other 640 acres purchased by R. H. Cotton from Boyd on December 19, 1956. This trust is to be administered as four separate trusts, each with an equal one-quarter interest. The trust will terminate when the younger child reaches 21 years of age, or by the trustee when any beneficiary reaches 21 years, but in no case may it be terminated in less than 10 years from date.

On June 4, 1957, R. H. Cotton, trustee, signed CRP contract No. 2–B–3, placing 555.5 acres of this land in the CRP for 10 years at an annual payment of $4,999.50. This land will also be paid for by CRP payments in less than 8 years.

By deed recorded December 19, 1956, Boyd and his wife sold 1,600 acres to W. P. Barnes for $96,000. By a trust agreement recorded on December 19, 1956, with R. H. Cotton as trustee, W. P. Barnes and his wife established a trust for their daughter, Naida L. Barnes. This covered 555 acres of the purchased land. Under the terms of the trust, the trustee was required to pay Mr. Barnes $23,000 with interest in 10 equal installments, and $9,000 on or before 10 years from date at 4 percent interest. It also provides the trust shall expire after 10 years at which time the beneficiary will receive full title to the land.

By a trust recorded December 19, 1956, Barnes established a similar trust for 555 acres of this land for his son, John L. Barnes, under the same terms.

By a trust recorded December 19, 1956, Barnes established a third trust for 490 acres of this land for his daughter, Jeanette B. Tower, under the same terms. By deed recorded May 27, 1957, R. H. Cotton, trustee, conveyed this land to Jeanette Tower as her separate estate and she agreed to assume the terms set forth under the trust.

On June 4, 1957, R. H. Cotton, as trustee for Naida L. Barnes and John L. Barnes, and as attorney in fact for Jeanette B. Tower, placed 1,101.2 acres of their land in the CRP for 10 years under contract No. 2–B–5, calling for an annual payment of $9,910.80. Tower receives one-half of this payment and the two trusts $2,477.70 each. Under these terms the 1,600-acre farm will be paid for in less than 10 years by CRP payments received for placing only 1,101.2 acres in the CRP.

As a result of the reconstitution of Boyd's farm, a modified CRP contract No. 2–B–1, was signed by the Boyds on June 4, 1957, calling for the following:

Participants	Period of contract	Acres in conservation reserve program	Annual payment
Richard B. Boyd	1956 to 1965	457.9	$4,121.10
Thomas B. Boyd	1957 to 1966	488.5	4,396.50
William D. Boyd	1957 to 1966	311.3	2,801.70
Total		1,257.7	11,319.30

While Tom J. Boyd signed the above contract, he received no part of the compensation.

It is significant to note after the reconstitution the farm had 5,320.3 acres, with a 1,257.7-acre soil-bank base, and the entire amount was placed in the CRP. Therefore, by the division of title and creation of trusts, the acreage placed in CRP increased from 1,523.1 to 4,025.7, and the annual payments increased from $13,707.90 to $36,229.10.

Case No. 2: By deed recorded October 15, 1956, Hubert L. Turner purchased from B. Sherrod 1,920 acres for $10 cash and a promissory note of $83,200, to be paid in 10 equal installments at 5 percent interest. This deed reflected $172.25 in revenue stamps.

By a second deed recorded on the same date Turner purchased from Sherrod 1,600 acres for $10 and other considerations. This deed carried no revenue stamps.

It appears, from the amount of revenue stamps affixed to the first deed, that the full purchase price of the 3,520 acres, although not set forth in the 2 deeds, was approximately $156,590, or $44.49 an acre.

Since the CRP regulations limit annual payments to any 1 individual to $5,000, Turner would have been permitted to participate in the CRP only to the extent of this limitation. However, through the following division of title and establishment of trusts, Turner's relatives will receive $24,997.50 annually for 10 years.

By 2 deeds recorded February 25, 1957, Turner and his wife sold to their 2 sons-in-law, W. C. Johnson and Billy Doyle Walls, 556 acres each of this land for $33,360 per deed.

By a declaration of trust recorded February 25, 1957, Turner and his wife sold to John T. Boyd, trustee, 556 acres of this land for $33,360, in trust for their son, Beverly Joe Turner. The trust will terminate when the beneficiary reaches 21 years of age or death.

By a declaration of trust recorded February 25, 1957, Turner and his wife sold to John T. Boyd, trustee, 572 acres of this land for $34,320, in trust for their grandson, Doyle Wesley Walls, the trust to terminate when the beneficiary reaches 21 or death.

By a declaration of trust recorded February 25, 1957, Turner and his wife sold John T. Boyd, trustee, 556 acres of this land for $33,360, in trust for their granddaughter, Deborah Jane Johnson, the trust to terminate when beneficiary reaches 21 years or death.

By a declaration of trust recorded March 4, 1957, Turner and his wife sold to John T. Boyd, trustee, 168 acres of this land for $10,080,

in trust for their granddaughter, Amelia Ann Johnson, the trust to terminate when beneficiary reaches 21 years or death.

Finally, on June 5, 1957, these purchasers and the trustee signed CRP contract No. 224–A. This contract reflected that the farm had a soil bank base of 3,506.4 acres. The following schedule reflects how these purchasers participated:

Participant	Acres in conservation-reserve program	Period	Annual payment
W. C. Johnson	555.5	1957–66	$4,999.50
Billy Doyle Walls	555.5	1957–66	4,999.50
Deborah Janet Johnson and Amelia Ann Johnson Trusts	555.5	1957–66	4,999.50
Doyle Wesley Walls Trust	555.5	1957–66	4,999.50
Beverly Joe Turner Trust	555.5	1957–66	4,999.50
Total	2,777.5		24,997.50

It will be noted from the above conveyances that when Turner transferred title of part of his land to his relatives, 1 conveyance was for 168 acres, 1 was for 572 acres, and 4 were for 556 acres. The significance of the size of these conveyances is that the maximum payment permitted under CRP regulations is obtained by placing 555.5 acres in CRP. Turner retained title to 556 acres which he could not place in the CRP because he had established a trust for his son and this trust was included in CRP Contract No. 224–A in the amount of $4,999.50.

To summarize, Turner purchased 3,520 acres of land in October 1956 for approximately $44.49 an acre. By division of title and establishment of trusts in February and March 1957, Turner sold 2,964 acres of this land to his relatives at $60 an acre. The relatives will receive annual CRP payments of $24,997.50 for 10 years, or a total of $249,975, and will be able to pay for this land through CRP payments within approximately 7 years. Had Turner not sold the land, the maximum payment he could have received over a 10-year period would have been $50,000.

Case No. 3: Mr. Collier advised that C. T. Guseman, together with his wife, Genevieve, in 1956 controlled a farm of 22,247 acres, part of which was her separate estate. This farm had a soil-bank base of 7,452.7 acres.

Mr. Collier stated that during the past year and a half Guseman sold a portion of his farm to a daughter by a previous marriage, Cecilia J. Timberlake, and to individuals not related to him.

The records of the county court reflect numerous land transactions by Guseman, but only those bearing on the CRP are set forth.

By deed recorded October 23, 1956, Guseman sold 640 acres to his daughter, Cecilia J. Timberlake, for $22,400.

By deed recorded October 23, 1956, Guseman sold 1,280 acres to his wife as her own separate estate for $38,400.

By deed recorded December 3, 1956, Guseman sold approximately 320 acres to Mrs. G. E. Pinkerton for $16,800.

During November 1956, CRP Contract No. 146 was offered which included land involved in the above transactions. This contract reflected the following information:

Participant	Terms of contract	Acres in conservation-reserve program	Annual payment
Genevieve Guseman	1956–61	[1] 574.6	$5,000.00
Cecilia J. Timberlake	1956–61	[2] 432.3	3,890.70
C. T. Guseman	1956–61	573.2	5,000.00
Mrs. G. E. Pinkerton	1956–65	[3] 312.2	2,809.80
Total		1,892.3	16,700.50

[1] 395 acres represent land deeded to her by Guseman on Oct. 23, 1956.
[2] All 432.3 acres represent land deeded to her by Guseman on Oct. 23, 1956.
[3] All 312.2 acres represent land deeded to her by Guseman on Dec. 3, 1956.

By deed recorded January 9, 1957, Guseman and his wife sold 640 acres of the farm to W. B. Renfro for $32,000. By two deeds recorded July 16, 1957, this land was sold by Renfro and his wife; 320 acres each to their niece, Elizabeth Cesar, and her husband, Fain G. Cesar, for $16,000 each.

On January 16, 1957, the Cesars offered to place the following land in the CRP:

Participants	Terms of contract	Acres in conservation-reserve program	Annual payment
Elizabeth Cesar	1957–66	320	$2,880
Fain G. Cesar	1957–66	284	2,556
Total		604	5,436

This contract was offered on January 16, 1957, and was approved by the county committee on June 28, 1957. On the latter date, it was determined that Renfro had not deeded the land to the Cesars. The county office contacted Renfro, who advised that he had forgotten to deed the land and thereafter the deeds were recorded in the county clerk's office on July 16, 1957. Mr. Collier advised that when the contracts were signed by the Cesars, Mr. Renfro had advised the county office that he was conveying the land to the Cesars. It is noted that the Cesars reside in Oklahoma City. At the rate of the annual payments, the Cesars will be able to pay the cost of the land in less than 6 years.

By two deeds recorded January 21, 1957, Guseman sold to W. W. Shields, by each deed, 640 acres for $34,400.

By a declaration of trust recorded April 1, 1957, Shields sold 640 acres of this land to W. R. Potter, trustee, for $34,400. This trust makes John Thomas Shields, his son, beneficiary, The trust is to terminate when the beneficiary reaches 21 years of age, or death.

By a declaration of trust recorded April 12, 1957, Shields sold the remaining 640 acres of this land to W. R. Potter, trustee, for $18,400. This trust is for the benefit of Shields' daughter, Nancy K. Hardin. Subsequently, this land was deeded by the trustee to Nancy K. Hardin, as her separate estate, and she assumed the terms of the declaration of trust.

On January 7, 1957, W. R. Potter, trustee for John T. Shields, signed CRP contract No. 146–A, placing 555.5 acres in CRP for 10

years at an annual payment of $4,999.50. On the same date, Nancy K. Hardin signed CRP contract No. 146–A, placing 555.5 acres in CRP for 10 years at an annual payment of $4,999.50. At the annual payment rates, the original cost of the 1,280 acres can be paid in less than 7 years.

It is significant to note that this land was offered in the CRP prior to the time it was actually brought or the trusts were established. However, neither contract was approved by the county committee until after the land transactions were recorded.

As previously reported, C. T. Guseman and his wife, Genevieve, controlled a farm of 22,247 acres, part of which was her separate estate. If it is assumed that Mrs. Guseman owned at least 556 acres as her separate estate, then the maximum annual CRP payment that could have been obtained by the Gusemans would have been $10,000. However, through division of title and establishment of trusts, the annual CRP payments were increased to $32,135.50.

From the complexity of the six above-mentioned cases, it is difficult for the staff to understand how a county committee can properly appraise and approve such contracts without legal advice. It is true that some of these cases were referred to the State office and to the USDA in Washington for review. Howeve it would seem prudent to the staff that all such cases should be subm d for proper interpretation.

B. NEW MEXICO

Producers in New Mexico have placed 660,263 acres in the CPR, which is approximately 400 percent more than the goal of 135,000 acres that was originally established by the Soil Bank Division. For this participation, producers in New Mexico will receive annual payments in 1957 totaling $5,340,000. In addition, it is estimated that they will earn practice payments totaling $1,701,000 during 1957.

While producers within 23 of New Mexico's 31 counties participated in the CRP, an analysis of the participation indicated that 504,632 acres, or 76.4 percent, of the total acreage placed in the CRP was concentrated within 7 counties. The following table summarizes the participation of producers within these seven counties and shows the relationship of land values within such counties to the CRP rates established for the counties. It will be observed that in 5 counties land could be paid for at the CRP rate in less than 3 years. For the other 2 counties it would require 3.5 years for one and 6.4 years for the other.

County	Acres in conservation-reserve program	Percentage of cropland in conservation-reserve program	Conservation-reserve program rate	Land value	Ratio of land value to conservation-reserve program rate
Torrance	84,724	74	$6	$11.93	2.0
Socorro	18,350	71	6	11.12	1.9
Santa Fe	13,732	65	6	21.16	3.5
Harding	30,725	51	7	11.08	1.6
Quay	126,687	45	9	22.69	2.5
Union	38,593	41	8	16.23	2.0
Curry	191,821	35	9	57.60	6.4
Total	504,632				

This report previously mentioned that the FCIC canceled its crop-insurance program for 14 counties in Texas, New Mexico, and Colorado

for 1956. One of these was Curry County, N. Mex., in which county the FCIC had suffered an accumulated loss of $3,512,224 since 1948.

Producers in Curry County placed 191,821 acres, or approximately 35 percent of their total cropland in the CRP. Because of this heavy participation and the large loss suffered by the FCIC since 1948, the staff concentrated its review of the CRP program in Curry County.

Mr. Ervin Duncan, office manager, Curry County ASC Office, Clovis, N. Mex., advised that there are approximately 1,100 farms in Curry County which have about 551,900 acres of cropland. As of July 15, 1957, producers in Curry County have executed 677 CRP agreements covering 191,821 acres, for which they will receive annual payments of $1,722,116. In addition, it is estimated that practice payments totaling $512,252 will be earned during 1957.

Mr. Duncan advised that there are 286 farms that have no ARP allotments which have their entire eligible acreage of 73,163 acres in the CRP. In addition there are 45 other farms with ARP allotments which have placed their entire ARP eligible acreage of 8,126 acres in the ARP and their entire eligible CRP acreage of 15,461 acres in the CRP. Thus, there are a total of 331 farms which have placed all their 96,750 eligible acres in either the ARP or the CRP.

Mr. Duncan advised that only 1 CRP contract is for 3 years. All the others are almost equally divided between 5- and 10-year contracts. The practice to be instituted under all contracts is practice A–2, which is permanent grass cover.

Mr. Duncan said that a long and severe drought in Curry County has been the cause for heavy participation in the CRP. He said the last good crop in Curry County was in 1949. From 1950 to date the crops have been very poor, due to the drought. Because of the drought, farmers have borrowed money to operate since 1950 and some were in serious financial condition when the soil-bank program was initiated. Mr. Duncan said the CRP presented an opportunity for farmers who were in bad financial condition to start paying off their debts.

Mr. Duncan advised that the soil-bank base is predicated upon acreage planted during the 2 years immediately preceding CRP. He said his office knew the wheat and cotton acreage of each farmer, because these are allotment crops. Information with respect to acreage planted to other soil-bank-base crops was furnished by the farmers. Mr. Duncan said that adjustment and allowance was made for the severe drought in computing the soil-bank-base acreage eligible for CRP.

Mr. Duncan stated that dry cropland in Curry County was worth between $50 and $60 an acre prior to the soil bank. He said, while it is his opinion that land values have increased very little, if any, because of either the ARP or the CRP, there have been several significant sales of land. He said the largest such sale was made by Gordon Wicks. The following summary of this sale was obtained from Mr. Duncan and the records of the Curry County ASC office.

Gordon Wicks and his former wife, Mavis Wicks Snow, in 1956 and prior thereto owned a farm consisting of 13,522 acres, of which 7,588.7 acres were cropland. The soil-bank base for this farm was 6,640 acres. During 1956 this farm was operated under the name of Wicks & Sons.

On October 8, 1956, Gordon Wicks executed an agreement in the name of Wicks & Sons, by which he placed 556.2 acres in the CRP for a

period of 10 years. For this participation Mr. Wicks was paid the maximum annual amount of $5,000 on March 14, 1957.

Prior to April 12, 1957, Mr. Wicks asked Mr. Duncan whether he could place sufficient additional land in the CRP so that he and his divorced wife, who retained an undivided one-half interest in the land, could each receive the $5,000 maximum payment. Mr. Duncan said this request was denied by the county committee, because it considered that an undivided interest constituted a partnership.

It is noted this decision was made by the county committee. However, Mr. Wear K. Schoonover, Office of General Counsel, USDA, said this was contrary to the interpretation of the Department and that Wicks and his wife each should have been permitted to enter the maximum amount in the program.

On April 12, 1957, Mr. Wicks brought the following 12 individuals to the ASC office and advised that he had sold each of them specific tracts of his farm:

Victor Stout, Portales, N. Mex.
Wayne Stout, Broadview, N. Mex.
F. D. Stout, Broadview, N. Mex.
Gerald D. Hastin, Clovis, N. Mex.
Joe B. Sisler, Clovis, N. Mex.
Gene Pettigrew, Clovis, N. Mex.
Billy M. McCasland, Clovis, N. Mex.
Andrew Don McCasland, Clovis, N. Mex.
Lynn L. Martin, Clovis, N. Mex.
B. V. Martin, Clovis, N. Mex.
Charles E. Green, Clovis, N. Mex.
Paul F. Reed, Clovis, N. Mex.

As evidence of the sale of his land to the above individuals, 12 contracts for deed, all of which were dated April 11, 1957, were furnished to the ASC office. The description of the land in the 12 contracts for deed indicated that Mr. Wicks had sold approximately 6,260 acres of his farm to these individuals. Mr. Duncan advised that, while some of the 12 purchasers were related to one another, he was quite certain that none of them was related in any way to Gordon Wicks.

The contracts for deed showed that the total purchase price for the land as discussed herein was $400,710. No downpayment was made on any of the 12 contracts and no interest was charged. The purchase price was to be paid in 10 equal annual installments totaling $40,071. Each purchaser is responsible for his own payment.

All 12 contracts contained the following significant paragraphs:

All liability on this agreement is conditioned and contingent upon second party's entering into a 10-year conservation agreement with the Curry County ASC, an agency of the Federal Government, under the terms of which second party shall receive annual payments of not less than $9 per acre for not less than 70 percent of the cultivated portion of the above described land. Upon the execution of such ASC contract, liability upon this agreeement shall become fixed.

In the event that the ASC contract above mentioned should be canceled by the Federal Government or any agency thereof prior to the expiration of the 10-year period above mentioned, then second party, at his option, shall be relieved of all future and further liability under the terms of this agreement, but likewise at his option may continue annual installment payments of one-tenth of the total consideration and comply with the terms of this agreement so as to be entitled to the warranty deed and abstract at the completion of the payment of the consideration as set out above.

As an additional consideration moving from first parties to second party, first parties agree to destroy any wheat presently growing upon the above described land which destruction may be necessary in order to qualify said land for participation in the conservation contract at no expense to second party. At second party's option, first parties agree to put in the cover crop in exchange for the Government payment therefor and/or at the buyer's option first parties will sow the grass required under the terms of the Government contract for a consideration of repayment of first parties' out-of-pocket expense plus 10 percent.

All contracts for deed stated that the annual payment was payable to Mr. Wicks on the date that the CRP payment was made to the buyer, or, in any event, no later than January 2 of each year. The contracts provided also that the unpaid principal shall be secured by an annual assignment of as much of the conservation reserve contract payment as may be necessary to pay the annual installment. It is noted Mr. Wicks sold most of the land at a price of approximately $65 an acre.

A check of the records of the county clerk failed to indicate that any of the 12 contracts for deed had been recorded.

On April 12, 1957, the 12 purchasers placed a total of 4,881.3 acres in the CRP for a 10-year period, for which they are to receive annual payments totaling $43,919.70.

A review of the 12 CRP agreements indicated that the total soil bank base for these farms was 5,289.2 acres. In three instances purchasers were unable to place all the land purchased in the CRP because of the $5,000 limitation.

It will be observed that, through the above sales, the annual CRP payments on land formerly owned by Gordon Wicks have been increased from a maximum of $5,000 to a total of $48,919.70. Since no downpayment and no interest was required on any of the contracts and all the contracts could be canceled in the event the Government terminated CRP payments, the staff believes that it is highly questionable whether Mr. Wicks could have consummated these sales had it not been for the CRP payments which financed the purchase of the land.

C. COLORADO

Producers in Colorado have placed 479,929 acres in the CRP, which is approximately 75 percent of the goal established by the Soil Bank Division. For this participation these producers will receive annual payments in 1957 totaling $3,423,000. In addition, it is estimated that they will also earn practice payments of $1,597,000 during 1957.

While producers in 44 of Colorado's 55 counties participated in the CRP, an analysis showed participation was concentrated in the east central and southeastern part of Colorado which has suffered from drought for the past several years. The following tabulation shows the counties in this area in which producers placed 10 percent or more of their cropland in the CRP. The significance of this tabulation is that the national average is only 1.5 percent.

County	Number of acres placed in conservation-reserve program	Number of acres of cropland	Percent conservation-reserve program acres to cropland acres
Bent	24,772	129,100	19.2
Cheyenne	47,872	406,631	11.8
Crowley	25,014	105,163	23.8
El Paso	28,992	160,120	18.1
Kiowa	70,742	551,790	12.8
Las Animas	14,788	103,318	14.3
Otero	8,626	85,064	10.1
Total	220,806	1,541,186	14.3

It will be observed that producers in the above 7 counties placed a total of 220,806 acres in the CRP, which represents 46 percent of the State's total participation.

It should be pointed out also that the FCIC canceled its 1956 crop insurance program for Kiowa, Las Animas, and Otero Counties because of heavy losses since 1948. The FCIC also canceled its insurance program for two other southeastern counties, namely, Baca and Prowers. While participation in both of these counties was less than 10 percent of cropland, it did amount to 65,954 acres, or 13.7 percent of the State's total, and, therefore, producers in 9 counties accounted for 59.7 percent of Colorado's total CRP participation.

It was noted that producers in the 7 counties shown in the above tabulation had a wheat allotment of 470,198 acres, of which they put 408,953.5 acres, or 87 percent, in the ARP. The 2 counties which placed the most acreage in the CRP, Kiowa (70,742 acres) and Cheyenne (47,872 acres), also had the largest wheat allotments, and producers in these 2 counties placed 91 and 95 percent, respectfully, of their wheat allotments in the ARP.

In contrast to the above heavy participation, 3 northeastern counties—Logan, Sedgwick, and Phillips—placed 3, 10, and 6 percent, respectively, of their total wheat allotment in the 1957 ARP. It is noted that the CRP participation in these counties was less than 1 percent of their total cropland.

As previously reported, officials of the Soil Bank Division stated that there was more CRP participation in areas of Colorado, where production risks are relatively high.

The staff visited the Kiowa and Cheyenne County ASC offices as participation in these two counties was greater than in any other Colorado counties.

1. Kiowa County

CRP participation by producers in Kiowa County amounted to 70,742 acres. Kiowa County ASC officials informed the staff that this heavy participation was caused by the severe drought conditions within the county for the past several years. They said the last good crop in Kiowa County was in 1952, and that producers in the county count on only 1 good crop every 5 years.

County ASC officials advised the staff that the CRP has resulted in a considerable amount of land being sold within the county. They said land which sold for $12 to $15 an acre before the CRP was now being sold at $35 an acre. They stated that the land was being sold primarily because of the $5,000 limitation on CRP payments. The staff was advised by county ASC officials that Gano Properties, owned by Harold Nelson Hobart, Sr., Harold Nelson Hobart, Jr., and Gano Hobart Tschudy, had a considerable amount of land in Kiowa County, some of which was sold because of the $5,000 limitation.

ASC officials advised that Gano Properties first offered the land to be sold to its tenants and, if the tenants did not buy the land, Gano Properties then offered the land to out-of-State land buyers.

ASC officials advised that, when Gano Properties first offered to sell land to George Fuller, a tenant, at $35 an acre, he declined to buy the land because he felt the price was too high. However, on

April 15, 1957, the last day that Fuller could participate in the 1957 CRP, representatives of Gano Properties, accompanied by land buyers from Oklahoma and Kansas, came to Kiowa County and again offered to sell land to Fuller. At this time, since Gano Properties indicated it would sell the land to out-of-State buyers if he did not purchase it, Fuller decided he should purchase the Gano land, in order to protect his own land which was adjacent to the land Gano offered him. ASC officials pointed out that, because of the drought condition, Fuller was afraid that if he did not buy the land it might blow over to his farm. They also stated that another factor that prompted Fuller to pay $35 an acre was the fact that he could finance the purchase of this land through CRP payments.

A review of files of the Kiowa County ASC office revealed a contract for sale dated April 15, 1957, between Harold Nelson Hobart, Sr., Harold Nelson Hobart, Jr., and Gano Hobart Tschudy as sellers, and George Fuller as purchaser. By this contract George Fuller purchased 640 acres of land at $35 an acre, or a total of $22,400. This contract required no downpayment but did require Fuller to place the maximum permitted acreage in both the ARP and the CRP and to assign 75 percent of all payments to the sellers. The contract further provided that, if the annual payments so assigned did not amount to $2,800, Fuller was required to pay the difference to the sellers.

ASC officials cited the following CRP contracts which were executed by persons that purchased land from Gano Properties in April 1957. ASC officials advised that, while they do not have copies of the contract of sale with the other purchasers, it was their understanding that the others purchased the land under the same terms as Fuller. All CRP contracts except Fuller's were dated April 15, 1957. Fuller's CRP contract was dated April 7, 1957, or approximately a week before he purchased the land from Gano Properties.

Contract No.	Operator and owner	Number of acres	Rate per acre	Conservation-reserve program annual payment
215-57-66	George Fuller, Arlington, Colo.	407	$7	$2,849
214-57-66	Harry Griswould, Arlington, Colo.	251	7	1,757
233-57-66	Preston D. Brewer, Booker, Tex.	555	7	3,885
232-57-66	O. G. Henderson, Beaver, Okla.	404	7	2,828
230-57-66	do	101	7	707
231-57-66	do	10	7	70
220-57-66	Z. J. Harmon, Fowler, Kans.	278	7	1,946
225-57-66	do	201	7	1,407
229-57-66	Thomas W. Johnson, Portales, N. Mex.	404	7	2,828
228-57-66	do	177	7	1,239
	Total	2,788		19,516

It should be noted that the above tabulation indicates that 2,788 acres of land purchased from Gano Properties were placed in the CRP. The actual amount of land purchased from Gano Properties was considerably higher but could not be readily determined, inasmuch as the files of Kiowa County contained only one purchase agreement.

ASC officials advised further that Gano Properties also owned land in Crowley County, Colo., and had sold some of this land while it was appealing a decision by the Crowley County ASC office that the owners of Gano Properties were entitled to only one $5,000 CRP payment.

A fieldman from the Colorado State ASC office advised this staff that the estate of John W. Baughman was selling land for $20 an acre in Cheyenne, Kiowa, Lincoln, and Baca Counties. He said the administrators of the estate were selling the land to raise cash to pay inheritance taxes. The land was first offered to the tenant and, if it was not purchased by the tenant, it was then sold to other producers in the counties. This land was sold on a no-downpayment no-interest basis, and the CRP payments were used to finance the purchase of the land. The fieldman said the land sold was isolated "dog and cat" land and he had no doubt that the CRP enhanced the value of the land and made it possible to sell it for $20 an acre, because prior to the soil bank this land sold for approximately $12 an acre.

2. Cheyenne County

Producers in Cheyenne County placed 47,872 acres in the CRP. This participation was the second highest in the State. ASC officials said they would attribute this heavy participation to the fact that Cheyenne County has suffered from severe drought for the past several years.

3. Crowley County

The files of the Soil Bank Division contain the following information with respect to the sale of land by Gano Properties in Crowley County.

Gano Properties, owned by George Gano prior to his death in June 1952, owned a 30,000-acre farm in Crowley County. With the death of George Gano, his heirs, Harold Nelson Hobart, Sr., Harold Nelson Hobart, Jr., and Gano Hobart Tschudy, became the owners of Gano Properties. This farm, which consisted of 14,560 acres of cropland, was divided into two ranches, namely, the east ranch and the west ranch. While the two ranches were 15 miles apart, they were managed by George Hinds, apparently as one farm, for Gano Properties. In 1956 the county ASC office permitted only one CRP contract in the maximum amount of $5,000.

In November 1956 one of the Hobarts, who lived in Kansas City, contacted G. H. Penstone, General Counsel, USDA, Kansas City, Mo., to determine whether each of the three heirs could receive the maximum $5,000 payment under CRP, or a total of $15,000. Mr. Penstone referred this question to Edward M. Schulman, Deputy General Counsel, USDA, Washington, who stated in part in a telegram dated November 23, 1956, to Mr. Penstone:

> Conservation reserve annual payment limitation is applicable to each person earning payment separately. Therefore three tenants in common entitled to annual payment of up to $5,000 if participating in program as individuals and not in capacity of partnership or other joint operation. Suggest you not give categorical answer to question until all facts of farm operation known because of other facets to problems.

While the above telegram from Mr. Schulman seems to indicate that the three heirs might each qualify to receive the $5,000 maximum payments, the telegram was sent to Mr. Penstone, and there is no

indication that either the Colorado State ASC office or the Crowley County ASC office was advised of Mr. Schulman's opinion.

According to Mr. Wear K. Schoonover, Office of General Counsel, USDA, the contents of the telegram means that, since the land was owned in common, each owner was entitled to the $5,000. However, if the owners held the land as a partnership, they would be entitled to a total of $5,000, the maximum limitation.

During this same period, Mr. Hinds contacted the Crowley County ASC office and suggested the desirability of Gano Properties placing all of its eligible cropland, in excess of that placed in the ARP, in the CRP. In January 1957, the Crowley County ASC office wrote to the Colorado State ASC office and suggested that Gano Properties be permitted to place all its eligible cropland in the CRP. The county ASC office pointed out, however, that, in its opinion, the CRP rate should be no more than $2 an acre for this land. As reported heretofore, the USDA permitted no individual contracts in excess of $5,000 in 1957. However, if it had, and if Gano Properties had placed their remaining 11,620 acres of eligible cropland in the CRP, the annual payments at $2 an acre would have amounted to $23,240.

In February 1957, the Crowley County ASC Committee again refused to permit payments in excess of $5,000 on land owned by Gano Properties.

On March 7, 1957, a special meeting was held at the request of the Hobarts, who informed the county ASC office that Mr. Schulman, Deputy General Counsel, had furnished Mr. Penstone with an opinion which, in effect, said that each of the 3 heirs could receive the maximum $5,000 CRP payment. As a result of this meeting, the county ASC committee reversed its previous stand and indicated that the heirs could receive a total of $5,000 each.

On March 8, 1957, the Colorado State ASC Committee referred this matter to the Soil Bank Division in Washington, which declined to approve CRP annual payments in excess of $5,000 on land owned by Gano Properties. Following this decision, the Colorado State ASC office advised the Crowley County ASC Committee that only one $5,000 contract would be permitted and, thereafter, the county committee again reversed itself and informed the Hobarts of the opinion of the Soil Bank Division.

Shortly thereafter, Mr. S. E. Paul, general counsel, USDA, Denver, Colo., heard informally that the east ranch had been sold by Gano Properties to a number of individuals under separate contracts, and that the buyers had entered into CRP contracts with the Government. Mr. Paul further indicated he had been told that the land sold was not worth over $10 an acre, but had been sold for $35 an acre and was being financed by the buyers through CRP payments. Mr. Paul stated, with regard to the sale of the east ranch, that:

If the Hobarts were not entitled to three contracts under the regulations but the arrangements which they have now made are unassailable, then this would seem to be a case wherein nothing succeeds like failure.

Prior to April 15, 1957, the 3 owners of Gano Properties again requested that each be permitted to obtain the $5,000 maximum payment. At this time, the Hobarts had conveyed 1,080 acres from the Gano Properties holdings to each of themselves as individuals, and each had offered and signed a CRP contract for an amount of land

which would give them the maximum $5,000 payment. However, the Crowley County ASC office advised them that the contracts still could not be approved, even though the land had been conveyed to them individually.

On April 26, 1957, a meeting was held between the attorney for the Hobarts, the USDA general counsel in Denver, and State ASC officials. At this meeting, the State ASC officials advised that, in making their determination that only one $5,000 payment was permissible under the regulations, they placed major emphasis on the fact that the land had been operated as a single unit prior to the passage of the Soil Bank Act. These officials further pointed out that the property was managed by Mr. Hinds, who kept all the income in a common fund, out of which all bills were paid, and the remaining profits, if any, were divided among the three Hobarts.

On May 3, 1957, the matter was referred by Mr. Paul to Mr. Schulman for an opinion. Mr. Schulman ruled on June 2, 1957, that the $5,000 limitation was a personal limitation and not a limitation on the farm as a unit. He stated that he did not believe that the partition of the land was a device to evade the $5,000 limitation and that, if otherwise not objectionable, the 3 separate CRP contracts with the Hobarts could be approved.

The staff was advised by the Crowley County ASC office that, as a result of Mr. Schulman's decision, the Hobarts have executed the following CRP contracts:

Contract No.	Name and address	Conservation-reserve program		
		Acres	Rate	Annual payment
133	Gano H. Tschudy, Kansas City, Mo	897.6	$5	$4,488
132	Harold Nelson Hobart, Sr., Kansas City, Mo	850.8	5	4,254
134	Harold Nelson Hobart, Jr., Hutchinson, Kans	867.0	5	4,335
131	Gano H. Tschudy, Kansas City, Mo Harold Nelson Hobart, Sr., Kansas City, Mo Harold Nelson Hobart, Jr., Hutchinson, Kans	390.0	5	[1] 1,923
	Total	3,005.4		15,000

[1] Actual extension is $1,950; reduced to $1,923 so as not to exceed $5,000 per participant.

The staff has been advised by the Crowley County ASC office that the following nine individuals executed CRP contracts involving land purchased from Gano Properties:

Contract No.		Acres	Rate	Annual payment
98	Frank Gregory, Ordway, Colo	667	$7.50	[1] $5,000.00
99	John Bauer, Sugar City, Colo	140	7.50	1,050.00
102	Reuben Bauer, Sugar City, Colo	661	7.50	4,957.50
103	Benjamin Bauer, Sugar City, Colo	648	7.50	4,860.00
106	Earl Proctor, Sugar City, Colo	667	7.50	[1] 5,000.00
109	Joe Bauer, Sugar City, Colo	667	7.50	[1] 5,000.00
114	Nathan Schlegel, Rocky Ford, Colo	554	7.50	4,155.00
115	Solomon J. Schlegel, Rocky Ford, Colo	138	7.50	1,035.00
122	Gilbert Proctor, Springfield, Colo	472	7.50	3,540.00
	Total	4,164		34,597.50

[1] Actual extension exceeds $5,000, reduced to $5,000 limit.

The staff points out that land which was said to be valued at not more than $10 an acre and which the Crowley County ASC Committee felt should go into the CRP at a top price of $2 an acre was permitted to go into the program at rates of $5 and $7.50 an acre. A total of 7,619 acres of land formerly owned by Gano Properties went into CRP for $49,597.50 a year, or almost $500,000 for the 10-year period of the CRP contracts. At the $2 top rate suggested by Crowley County ASC Committee, all of the 11,620 acres of eligible cropland if put in the CRP would have cost $232,400 for the 10-year period.

D. SOUTH DAKOTA

Producers in South Dakota have placed 412,354 acres in the CRP, or approximately 66.5 percent of the goal of 620,000 acres which was originally established by the Soil Bank Division. For this participation they will receive annual payments in 1957 totaling $3,558,000, and it is estimated that they will earn practice payments totaling $3,206,000 during 1957.

State and county ASC officials advised that CRP participation in South Dakota was generally concentrated in the drought areas. In this regard it will be noted that, as of October 8, 1956, part or all of 35 counties of South Dakota were designated as disaster areas by the USDA.

The staff was informed by these officials that they knew of no attempts to circumvent the $5,000 maximum limitation through the establishment of trusts, partnerships, or sales of land. With respect to land speculation, officials advised that when the Soil Bank Act was first passed land values in some counties increased possibly $5 an acre. This increase was caused by land speculators from Oklahoma and Texas who came to South Dakota to purchase land. Much of the land these individuals attempted to purchase was occupied by a tenant. When they attempted to buy the land and break the tenant relationship, county committees, with the backing of the State office, refused to accept the land of the new owner in the soil bank if he could not show that he was a bona fide farmer. This brought the land boom to an abrupt stop.

The CRP rate for counties in South Dakota ranged from a minimum $6 rate to a maximum $12 rate. With respect to these rates, a real-estate broker in Huron, S. Dak., said they are out of line with land values and, therefore, discourage participation by any owner of good cropland. He explained that in the western part of South Dakota much of the land is marginal land worth about $25 an acre. If this land is placed in the CRP at the minimum rate of $6 an acre, it would require about 4 years to pay for the land through CRP payments. In the eastern part of the State cropland is worth $125 or more an acre and, if this land is placed in the CRP at the maximum rate of $12 an acre, it would require about 10 years to pay for the land through CRP payments. He said it would seem to be obvious that there is more incentive for the owner of marginal land to place it in the CRP than there is for the owner of good cropland.

The State ASC office, by memorandum dated March 18, 1957, advised the director, northwest area, CSS, in part:

> As a result of complaints received regarding some of the established rental rates under the conservation-reserve program, especially in counties bordering on

North Dakota, the State committee has reappraised this situation very carefully and thoroughly. It now appears that the factor of restoring unneeded cropland in the western part of the State to permanent vegetative cover was not given sufficient weight when the rates were set up originally. To remedy this defect it is proposed that the rates for all counties presently having a rate of $6 be raised to $7 per acre.

By memorandum dated April 9, 1957, the Deputy Director for Production Adjustment denied the request of the South Dakota State ASC office that the minimum rate be increased to $7 and, in so doing, stated in part:

It would appear your State agricultural stabilization and conservation committee made an equitable determination of county rates for the conservation reserve program whereby the South Dakota State average of $9 per acre was distributed among the counties from a low of $6 to a high of $12.

We recognize that from some standpoints the spread between the farm characteristics in South Dakota counties exceeds the spread of 67 percent of the State average reflected by your rates. The $6 rates represent an upgrading in rates while the $12 rate represents some downgrading. For the counties assigned the $6 rate there is much more information available to substantiate a lower rate in relation to other South Dakota counties than there is to support a higher rate. A look at a few of these items makes the $6 rate seem quite high.

For a group of 6 representative counties assigned the $6 rate, the annual payment rate represented from 26.7 percent to 36.9 percent of the average value per acre as compared with the 6 counties assigned the $12 rate for which the annual payment rate amounted to 6.6 percent to 9.9 percent of the average value per acre.

The average value per acre of the 6 selected counties assigned the $6 rate ranged from a low of $16.27 to a high of $22.46 as compared with the average value per acre of the 6 counties assigned the $12 rate for which the lowest value per acre was $140.69 and the highest value per acre was $182.23.

Mr. Thomas E. Hamilton, Deputy Director, Soil Bank Division, advised that the land values quoted above were obtained from the 1954 agricultural census. He acknowledged that the 1954 land values seemed to indicate that the $6 rate may be too high and the $12 rate too low. However, he said these land values may be too low in some instances because they take into consideration, not only cropland, but grazing land and woodland. He said, however, that these land values were used in denying the request of the South Dakota ASC office because they represented the best available information on land values.

There is set out below a table showing the 14 counties receiving the $6 minimum rate that the State office proposed be raised to $7. This table shows the average land value per acre and the number of years that it would take to pay for this land at the CRP rate.

County	Average land value per acre (1954)	Number of years to pay at Conservation-reserve program rate	County	Average land value per acre (1954)	Number of years to pay at Conservation-reserve program rate
Butte	$17.78	3.0	Jackson	16.27	2.7
Corson	16.86	2.8	Jones	20.32	3.4
Custer	16.67	2.8	Meade	15.10	2.5
Dewey	15.45	2.6	Pennington	22.46	3.7
Fall River	15.67	2.6	Perkins	17.37	2.9
Haakon	15.85	2.6	Stanley	18.10	3.0
Harding	13.00	2.2	Ziebach	12.65	2.1

Mr. Kenneth E. Valentine, Program Analysis Branch, Soil Bank Division, advised that statistics by counties showing the percentage of total cropland placed in the CRP indicate that participation in the above 14 counties was relatively small and that the greatest participation was in Brown County and Marshall County, which had a $9 and $10 rate, respectively. He said this may indicate that the $6 rate is not as favorable as it might appear.

An analysis of participation by the 14 counties having a $6 rate indicates that they placed a total of 49,794 acres in the CRP which is approximately 1.7 percent of the total cropland of these counties. While this participation appears to be small, it is significant that 9 counties in the southeastern part of the State, which had a CRP rate ranging from $10 to $12 per acre, placed 13,799 acres in the CRP, or approximately 0.5 percent of their total cropland. Land values in these 9 counties ranged from $74.44 in Douglas County, to a high of $174.75 in Union County. Predicated on these values, it would require 7.4 years for CRP payments to pay for land in Douglas County and 14.6 years in Union County.

While Brown and Marshall Counties had the largest participation, totaling 66,990 acres or approximately 5.6 percent of their total cropland, land in Brown County could be paid for within 5.6 years at its CRP rate of $9 an acre, whereas land in Marshall County could be paid for within 3.7 years at its $10 CRP rate.

The significance of the percentages of total cropland placed in the CRP is indicated by the fact that, on a national basis, 1.5 percent of total cropland was placed in the CRP.

E. MISSISSIPPI

Producers in Mississippi have placed 48,970 acres in the CRP, or approximately 13.8 percent of the goal of 355,000 acres which was originally established by the Soil Bank Division. For this participation they will receive annual payments in 1957 totaling $486,000, and it is estimated that they will earn practice payments totaling $561,000 during 1957. Officials attributed the relatively light CRP participation to the fact that land values, as compared to CRP rates, are relatively high in Mississippi.

State and county ASC officials said they knew of only 5 CRP contracts which approximated the $5,000 maximum limitation. These officials said that no instances had come to their attention of any trust or partnership being formed to circumvent the $5,000 limitation.

County ASC officials of Sunflower and Washington Counties, two of the counties wherein participation was heaviest, advised that farmers participated for several reasons, among which were:

1. They had surplus land for which there was no other use.
2. Soybeans are normally grown on this type of land, but for the past several years the crops have been poor.
3. Some farmers are taking advantage of the CRP to change from crop production to production of livestock.
4. Some small farmers have placed their land in the soil bank and have obtained other employment.

State and county ASC officials advised this staff that they knew of no land speculation in the State as a result of either the ARP or the

CRP. They said that the eligible land was generally too expensive, as compared with the soil-bank rates, to attract land speculators.

State ASC officials advised this staff that, in order to set CRP rates, county offices were circularized to determine the cash value of the land and the prevailing cash rental rates for land. The State officials advised that the result obtained was practically worthless, because cropland is not sold by itself. When a farm is sold, it is usually sold in its entirety and includes pasture, woodland, wasteland, cropland, and improvements. Rental rates varied widely and depended upon whether the land had a cotton allotment or was used for the production of some nonallotted crop or was pastureland used for grazing.

County ASC personnel also pointed out the difficulty of fixing land values because generally the best land was not for sale. However, estimates and information with respect to recent actual sales were obtained from county ASC officials. The following is a summary of such information:

ESTIMATES

County	Cropland value	Comments	Conservation-reserve program payment
Calhoun	$100 to $135	Good cropland	$9.50
Yalobusha	$90 to $125	do	9.50
Panola	$100 to $200	do	10.50
Bolivar	$150 to $350	Average cropland	11.50
Coahoma	$175	Minimum cropland	11.50
	$400	Very good cropland	
Quitman	$100 to $200	Average open land	11.50
Sunflower	$200 up	Average to better	11.50
Tunica	$100 to $300	do	11.50
Washington	$250 to $300	Average cottonland	11.50
	$100 to $130	Average riceland	
	$75 to $110	Lower price land	

ACTUAL RECENT SALES

Calhoun	$75 to $150	Cropland	$9.50
Grenada	$100	Good farm	9.50
	$15	Poor hill farm	
Quitman	$144	Average farm	11.50
	$400	Good farm	
Tallahatchie	$260 to $300	Very good farms	11.50
	$50	Hill section	10.50
Washington	$366	Good farm	11.50

With regard to land sales, officials of the Calhoun County ASC office advised that John Covington, Jr., Marks, Miss., recently purchased a 1,750-acre farm for a reputed price of approximately $175,000. The soil-bank base for this farm is 1,272.5 acres, which includes a cotton allotment of 301.2 acres.

On March 12, 1957, Mr. Covington signed CRP contract No. 6–57–61 placing 526.3 acres in the CRP for a period of 5 years. Under this contract Mr. Covington will receive $9.50 an acre, or a total of $4,999.85, for each of the 5 years. On the same date Mr. Covington signed ARP contract No. 6, placing 190.3 acres in the cotton ARP program, for which he will receive $14,653.10 during 1957.

It will be observed that Mr. Covington will receive a total of $19,652.95 in 1957, which will enable him to recover approximately 11.2 percent of his investment in 1 year. In addition, Mr. Covington will

be permitted to harvest 110.9 acres of cotton during 1957, and 445 acres of other soil-bank base crops.

F. ARKANSAS

Producers in Arkansas have placed 61,526 acres in the CRP, or approximately 14 percent of the goal of 435,000 acres which was established by the Soil Bank Division. For this participation they will receive annual payments in 1957 of $497,000, and it is estimated they will earn practice payments totaling $701,000 during 1957.

State and county ASC officials attributed the light CRP participation to the fact that land values, as compared to CRP rates, are relatively high in Arkansas. Because of the high land values, neither the CRP nor the ARP has caused any land speculation in Arkansas. They advised further that they knew of only one CRP contract for the $5,000 maximum limitation.

State officials advised that it would be very difficult to estimate the value of the land that has been placed in the CRP as each farm will have its own value depending on land use, allotments for crops, buildings, location, and access to irrigation water.

Officials stated that in setting CRP rates they were guided by the land values established by the 1954 Bureau of the Census agricultural survey and by productivity figures compiled by the Agricultural Marketing Service. Predicated upon this information, CRP rates ranging from $7 to $11 per acre were established.

County ASC officials furnished the staff with the following estimates of the value of land within their respective counties:

County	Cropland value per acre	Comments	Conservation-reserve program payment rate
Arkansas	$140, riceland	Actual sale of good land	$10
	$100 to $125, riceland	Average land	
Jackson	$100, riceland	Minimum value per acre	10
Desha	$200, cottonland	Good river bottom land	11
	$100	Other cropland	
Mississippi	$600	Very few sales	11

During the staff's review of CRP contracts, it was noted that on March 6, 1957, the city water and light plant, of Jonesboro, Ark., signed CRP contract No. 37 placing in the CRP 180.2 acres at the diversion rate and 473 acres at the nondiversion rate for a 5-year period for an annual payment of $3,543.10.

The staff was advised by officials of the city water and light plant that it owns approximately 920 acres of land on which there are no allotments. For the past several years this land has been leased on a cash rental basis for $2,000. The last lease, however, was canceled because the lessee failed to pay the rent. In 1956 an unsuccessful attempt was again made to rent this land, and thereafter it was decided to place the land in the CRP.

Comments of United States Department of Agriculture on a Report to the Committee on Appropriations, House of Representatives on the 1957 Soil-Bank Programs

The Department of Agriculture has reviewed the above report dated February 1958. The report relates to some administrative problems which the investigative staff of the House Committee on Appropriations encountered in its investigation of 1957 soil-bank programs. In conjunction with our own continued studies of the soil-bank programs this report should aid us in further improving operations to better achieve the purposes of the Soil Bank Act.

Because the President has recommended to the Congress that the acreage-reserve program of the soil bank be terminated with the conclusion of the 1958 program, we will not attempt to discuss the comments on that program in detail. Part I of the report covers the 1957 acreage-reserve program. We shall indicate some possible adjustments or solutions to major points raised in part II on the conservation-reserve program.

PART I. ACREAGE-RESERVE PROGRAM

The 1957 acreage-reserve program followed so soon after the late-started 1956 acreage-reserve program that only limited time was provided in which to gain necessary operating experience to establish a smooth running program. It is largely axiomatic that a very great amount of effort and considerable time and experience is requisite to the formulation, development and efficient establishment of a program of the scope of the soil bank. To instruct personnel in approximately 3,000 agricultural stabilization and conservation county offices as to the operation and functioning of even 1 program of the magnitude of the acreage-reserve program—even though already formulated and developed—is in itself a major accomplishment. The fact that it was necessary to formulate and develop regulations, prepare and issue operating instructions, numerous contract and other forms on an almost continuous emergency basis for 3 crop years has undoubtedly been responsible for some of the difficulties pointed up in this report on the 1957 programs.

With the changes placed into effect on the 1958 program due to the greater experience gained after a little more than a year's operation of the soil bank, we feel that this year's program will accomplish, within funds-and-payments limitations, the intent of the legislation. During the remainder of the time in which the acreage-reserve program will be functioning, this Department will attempt to use fully the worthwhile suggestions and pointers contained in the report to increase the effectiveness of the program.

The inclusion of the principle of the soil-bank base acreage—a device to restrict the production of unneeded crops—in the 1958 acreage-reserve program, has, in conjunction with the use of this device with the conservation-reserve program, brought about an even greater degree of stability in our crop-production patterns. This and other changes and amendments acknowledged in the report will make for better administration during the remainder of the life of the acreage-reserve program.

The following facts indicate the accomplishments under the 1957 acreage-reserve program:

(*a*) A total of approximately 21.4 million acres of cropland suitable for growing basic crops were placed in the 1957 acreage reserve. This was comprised of: wheat, 12.8 million acres; corn, 5.2 million acres; upland cotton, 3 million acres; rice, 242,000 acres; and all tobacco, nearly 80,000 acres.

(*b*) Because of the acreage-reserve program we produced in 1957 about 175 million bushels less wheat, 225 million bushels less corn, 2 million bales fewer of cotton, 6 million hundredweight less rice, and 93 million pounds less tobacco than probably would have been produced had there been no acreage reserve.

(*c*) A total of more than 914,000 agreements were signed under the 1957 acreage-reserve program. Of these, wheat totaled 233,000; corn, 324,000; upland cotton, 301,000; rice, 4,825; all tobacco, approximately 52,000.

(*d*) Funds obligated to producers who signed 1957 acreage-reserve agreements totaled approximately $613.8 million. These funds were obligated by commodities as follows: Wheat, approximately $230.9 million; corn, $196.4 million; upland cotton, $153.3 million; rice, $15.5 million; all tobacco, $17.8 million.

The initial response under the 1958 acreage-reserve program was so enthusiastic that it became necessary to rigidly allocate funds to commodities and States. Through January 31, 1958, the third week of the signup period, farmers had filed approximately 610,000 applications with their agricultural stabilization and conservation county offices covering about 10.9 million acres of cropland for which more than $425 million would be required to meet the obligation to such producers if all were accepted. With 3 weeks remaining in the signup period for cotton, corn, and spring wheat, and 5 weeks for rice and tobacco, it seems likely that there will be a substantial oversubscription above the $500 million appropriated for the 1958 acreage-reserve program.

PART II. CONSERVATION-RESERVE PROGRAM

President Eisenhower's recommendations relative to agriculture referred to the Committee on Agriculture on January 16, 1958 stated in part:

We should now shift the emphasis of the soil bank away from the short-term acreage reserve, aimed at reducing surpluses of particular crops, to the long-term conservation reserve, aimed at overall production adjustment. This change will aid all farmers, especially the low-income farmer, who will, if he desires, be better able to retire his entire farm from production.

The conservation-reserve program is a long-range program under which farmers may sign contracts voluntarily to divert general cropland from the production of crops to soil and water conservation uses, tree planting, and wildlife protection for periods of 3, 5, or 10 years. Contracts under it may be entered into for 1 year more than under the acreage-reserve program, as authorized, i. e., through 1960. The Department's approach toward the development and operation of this longer term program has been both conservative and experimental in attempting to find operating bases that would accomplish the full intent of the legislation.

The broad administrative and educational problems involved in the launching of the acreage-reserve program have been in several respects even greater with the conservation-reserve program largely because of its long-term character. Not only have the administrative agencies within the Department continuously studied and analyzed the administrative and operational factors of the program, but in addition, research agencies of the Department and of several State universities have also been studying them looking toward further improvement.

Once it is understood by farmers that the objectives of the conservation-reserve program is to encourage, through economic incentives, the reduction in the production of agricultural commodities surplus to our requirements as well as to conserve our natural resources—soil, water, and wildlife—for future use as needed, participation in the program should be greatly increased. As stated in the committee's report, some principal reasons for nonparticipation in the conservation-reserve program have been: (1) High land values in relation to the conservation-reserve program payment rates; (2) farmers' reluctance to sign long-term contracts, the results of which are difficult in many cases to foresee; and (3) the necessity of complying with all allotments and the soil bank base acreage for the farm.

The educational features of the program have been aimed at explaining the objectives of the program in order that those farmers who might be able and willing to participate would be given sufficient understanding of the program to arrive at decisions to participate. The economic pressures endured by farmers in areas subject to prolonged periods of drought would tend logically to encourage broader participation of such farmers in such areas. This is borne out by the fact that the areas which had suffered from drought for several years in Texas, New Mexico, and Colorado accounted for relatively large participation in the conservation-reserve program.

Experience shows that some minor adjustments authorized under the present legislation were needed to make the program equally effective in all parts of the country. Consequently persons having difficulty in agriculture, usually associated with a combination of factors such as marginal land, hazardous cropping conditions, uneconomic size of operation, old age or labor shortage, will be able through the economic aid furnished by the conservation-reserve program to relocate or establish themselves in some other satisfactory endeavor. The fact that nearly one-fifth of the participation obtained to date involves the retirement of whole farm units is evidence of this fact.

Any judgment of the several cases cited in the report wherein attempts may have been made to evade the $5,000 maximum-payment limitation through division of title and establishment of trusts should be made in light of the following fundamental factors:

(1) The regulations now require that—

> * * * a farm as to which the ownership has changed shall not be eligible to be placed in the conservation reserve during the first 12 months of the new ownership unless the county committee determines that the farm would continue to be farmed by the new owner in the absence of the soil-bank program.

(2) The primary purpose of the conservation-reserve program is to take cropland out of production. Hence, overall, the more crop-

land placed in the conservation reserve the greater the accomplishment of this program objective.

(3) The conservation-reserve program contains no provision to prohibit the transfer of title to land. Refund of conservation-reserve program payments are required in some cases of land sales to protect the interest of the Government.

(4) The definition of a family trust has been expanded. This definition now states that such a trust would be considered to be a scheme or device to evade the $5,000 maximum annual payment limitation if it results in the settlor and beneficiaries of the trust receiving in the aggregate annual payments for any year in excess of $5,000 for all land placed in the Conservation Reserve. This expanded definition states further that—

> For purposes of this provision, members of a family include husband or wife of a settlor, children of the settlor, their husbands and wives, grandchildren of the settlor, stepchildren of a child of the settlor, and any minor related to the settlor by blood or marriage, and members of the immediate household of the settlor; and payments to a trustee shall be regarded as payments to the beneficiaries of the trust.

(5) The regulations also now provide that no producer shall break out any land not classified as cropland at the time a conservation-reserve program contract was entered into unless the breaking out of such land is approved by the county committee as a good farming practice and an equal acreage of cropland on the farm exclusive of the acreage and conservation reserves is retired to noncrop use. Hence no new land can be brought into production without the approval of the county committee.

In reviewing State and county payment rates for the conservation-reserve program the Department gave careful consideration to land values and to the data available on cash rentals for land. However, we have been unable to obtain many data of a homogeneous or representative character on cash rentals at State and county levels. Authority has been given to county agricultural stabilization and conservation committees to adjust individual farm annual payment rates downward from the average payment rate established for a county or area where it is determined in their judgment that the productivity, cash value, or rental rate for such farm is less than the average for the county.

These steps and others have been aimed at meeting the provisions of the Soil Bank Act to provide the incentives necessary to obtain contracts covering sufficient acreage for the substantial accomplishment of the purposes of the program. The establishment of economic payment rates and the overall administration of the program at Federal, State, and county levels have held alleged land speculative activities under this program to a minimum. Some methods used were as stated in the committee report for South Dakota, wherein the action of the State committee "brought the land boom to an abrupt stop." Thus, reported land speculative activities generally were more "shadow than substance."

In those instances where so-called surplus land for which there was no other use was placed in the conservation reserve, it should be borne in mind that land to be eligible must have been regularly used in the production of crops on the farm. This includes cropland devoted to

such crops as tame hay, alfalfa, and clovers which do not require annual tillage.

Now that farmers have had a fuller opportunity to evaluate the impact and effect of the long-term contracts required to accomplish the purposes of the conservation-reserve program they are likely to participate to a much greater extent than in previous programs. However, the amount of funds made available annually by the Congress will govern to a large degree the amount of such participation.

The activities required to convert cropland to conservation uses and to bring about a satisfactory balance between supply and demand for agricultural commodities and still allow full production on the land best suited and most efficiently managed can be substantially obtained through this new program approach. The continuation of production which cannot be efficiently obtained at a reasonable return to the farmer for both his capital and labor will only continue the depressed conditions of United States agriculture. Without such assistance the needed adjustment will only be prolonged and contribute to unnecessary wasteful deterioration of our basic resources.

It is our intention to continue to administer the soil bank as efficiently as possible to accomplish the objectives and purposes set forth in the act. We shall welcome suggestions for further improvements in program operations.

WATERSHED PROTECTION AND FLOOD PREVENTION PROGRAMS OF THE SOIL CONSERVATION SERVICE, UNITED STATES DEPARTMENT OF AGRICULTURE

A REPORT TO THE COMMITTEE ON APPROPRIATIONS, UNITED STATES HOUSE OF REPRESENTATIVES, SURVEYS AND INVESTIGATIONS STAFF, DECEMBER 1957

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III. REVIEW OF SOIL CONSERVATION SERVICE, UNITED STATES DEPARTMENT OF AGRICULTURE, WATERSHED PROGRAMS

A. ORGANIZATION OF SOIL CONSERVATION SERVICE FOR WATERSHED PROTECTION AND FLOOD CONTROL

The three watershed protection and flood control programs of the United States Department of Agriculture (USDA) are administered by the Soil Conservation Service (SCS). Major responsibility for these programs handled by Planning Division and Engineering Division of SCS.

B. THE 11 AUTHORIZED AREAS—FLOOD CONTROL ACT OF 1944

The Flood Control Act of 1944 authorized works of improvement in 11 river basins covering an estimated 30,103,960 acres. The estimated cost to the United States in 1944 for the works of improvement was $87,782,000. Since then the estimate has risen to $288,463,396, an increase of 228.6 percent, based on a 1954 price level. Over half of this is due to increased price levels. The balance is due to approved changes in structural measures.

C. THE PILOT WATERSHED PROGRAM

This program was inaugurated in 1954 and authorized 62 watershed projects, 7 of which have been terminated. Its purpose was to demonstrate what could be accomplished in the way of soil conservation and flood control by means of land treatment and necessary structural measures. The original estimated total Federal cost for the 62 projects was $28,706,000. The most recent estimate made by the SCS in February 1957 of the total Federal cost for the remaining 54 watersheds is $35,097,627, an increase of 22.26 percent. SCS estimates the pilot watershed program will be completed in fiscal year 1961. One project has been completed to date.

D. WATERSHED PROTECTION AND FLOOD PREVENTION ACT (PUBLIC LAW 566, 83D CONG., AS AMENDED)

Public Law 566, 83d Congress, as amended, hereinafter referred to as P. L. 566, authorized the Secretary of Agriculture to cooperate with the States and local organizations for the purposes of planning and carrying out works of improvement for soil conservation, preventing flood damages and furthering the conservation, development, utilization, and disposal of water.

Applications for assistance are submitted by local organizations to the USDA through State agencies. Total funds appropriated for works of improvement through fiscal year 1958 are $18,944,200, of which $17,589,000 are available for fiscal year 1958. The SCS estimates $11 million of funds available this fiscal year will not be spent and will carry over to fiscal year 1959. SCS Planning Division states inability to obligate funds due to changes necessitated in work

SCS has established 42 work plan parties for P. L. 566 projects. These plans by Public Law 1018 which amended P. L. 566; mechanics of getting projects approved; inability of local organizations to obtain land, easements, and rights-of-way and guarantee the proper operation and maintenance; and inability in some instances to secure cooperation of landowners to apply necessary land-treatment measures in watersheds.

As of October 31, 1957, seven flood-retarding structures were completed, 30 were under construction, 6 for which invitations to bid were sent out, and 10 under project agreement between local organizations and SCS.

IV. Investigations, Surveys, and Planning—Public Law 566

A. APPLICATIONS

As of November 1, 1957, 782 applications for assistance under P. L. 566 had been received in Washington, D. C., and an estimated 220 applications are being processed by State agencies for a total of approximately 1,000. Largest number received was from the State of Kentucky, which submitted 134. In some States the State conservationist by State law can be a member of the State agency which approves applications. In one State visited the State conservationist is a member of the State watershed review committee and votes on P. L. 566 applications to be submitted to the USDA.

The staff is of the opinion that to prevent the appearance that the Federal Government is exercising authority on approval of P. L. 566 applications at the State level, the State conservationist or any other Federal employee should not vote as members of the State agency, approving, disapproving, or setting priorities on applications.

B. WORK PLANS

Total appropriations for investigations, surveys, and planning through the fiscal year 1957 total $9,471,800, of which $8,520,877 has been obligated. Work plans produced through June 30, 1957, amount to 73 final work plans of which 42 have been approved for operation; 21 tentative work plans and partially completed work plans estimated to be equivalent to 68 complete work plans for a total of 162. The average cost of each of the 162 work plans is $52,598. The SCS Administrator states he is considering some type of division of work plans between relatively simple and the more complex with the idea that the State conservationist will be given authority to authorize planning of the smaller and less complicated projects.

C. WORK PLAN PARTIES

parties are assigned to particular States. The States of Arkansas, California, Connecticut, Kentucky, Oklahoma, and Texas have taken action to provide assistance in furtherance of planning P. L. 566 projects.

V. Cooperation Between United States Department of Agriculture and Other Federal Agencies

A. INTER-AGENCY COMMITTEE ON WATER RESOURCES AND COOPERATIVE STUDIES

The Department of Defense, the USDA and the Department of Interior share the major Federal responsibility for Federal flood-control programs. On May 26, 1954, the Federal agencies with an interest in water problems formed the Inter-Agency Committee on Water Resources (ICWR) to replace the Federal Inter-Agency River Basin Committee. The power of ICWR is advisory.

The USDA and the Corps of Engineers (CE) are conducting cooperative studies in the following river basins: Delaware River, Potomac River, Cape Fear River, Mississippi River and tributaries, Pappio (or Papillion) Creek and the Des Moines River. The SCS appropriation for the fiscal year 1958 provided $1 million for such joint studies.

B. THE CORPS OF ENGINEERS, DEPARTMENT OF THE ARMY

P. L. 566 requires that any plan requiring an estimated Federal contribution to construction costs in excess of $250,000 or containing any structure having a total capacity in excess of 2,500 acre-feet shall be submitted to the Secretary of the Army for his views and recommendations at least 30 days prior to transmission of the plan to Congress through the President. The CE is the reviewing agency for the Department of the Army.

1. National Association of Soil Conservation Districts (NASCD)

Mr. Nolen J. Fuqua, president of the NASCD, stated that to his knowledge Government agencies having an interest in the watershed protection and flood prevention programs of the USDA have cooperated in the carrying out of such plans, with the exception of the CE. He said the CE is taking so long to comment on projects he fears this delaying will cause the local people to become disgruntled with the program, and that eventually such stalling will kill the Watershed Protection and Flood Prevention Act.

Mr. Fuqua was asked by staff members if he knew of any other situations or instances which he considered a lack of cooperation on the part of CE with USDA in the small watershed program. He stated that the only thing he knew was the CE's delay in commenting on the projects that had to go to Congress for approval.

2. American Farm Bureau Federation (AFBF)

Mr. Charles C. Butler, director, land and water use, and Mr. Matt Triggs, assistant legislative director, AFBF, Washington, D. C., stated the federation has in the past and still supports the extension service concept of conservation. They said the AFBF is opposed to Federal control of conservation and did not desire to see the SCS of the USDA grow any larger, however, they stated that the Federation strongly supports P. L. 566. They were of the opinion the delay in commenting on P. L. 566 projects by the CE was a deliberate attempt to slow down and hinder the small watershed program. This is the only specific act by the CE which they considered definitely as noncooperative.

3. Comments by Corps of Engineers on Its Review of P. L. 566 Projects

General Person stated that the delay in commenting on P. L. 566 projects by the CE was not an attempt to disrupt or sabotage the small watershed program, but the delay was caused by the mechanics of review in the field and in the office of the Chief of Engineers, and in consideration of what comments to make on cost-sharing under provisions of Bureau of the Budget (BOB) Circular A–47.

The USDA P. L. 566 work plans submitted to the CE for review did not make provisions for cost sharing for land enhancement as provided for in BOB Circular A–47. In view of this, the CE felt it was necessary to prepare comments on cost sharing otherwise, it might not be realized at higher levels in the executive and legislative branches that two Federal agencies were following different policies on cost sharing for the same type of project. These comments on cost sharing according to the CE required considerable study and became a factor in the delay.

General Person stated to this staff that he is sure that in the future the CE will not delay in commenting on P. L. 566 projects.

4. Engineering Aspects of P. L. 566 Projects

General Person stated that the Hoover Commission has recommended to Congress that the construction of headwater dams in the flood control program of SCS be transferred to CE which recommendation he understood may be under study by higher authority. Gen. J. S. Bragdon, Assistant for Public Works Planning, the White House, in a letter to Assistant Secretary, USDA, Ervin L. Peterson, on August 12, 1957, stated he is following up on questions of CE and Bureau of Reclamation (BR) furnishing USDA with basic information, engineering analysis, and actual construction of upstream dams.

Assistant Secretary of the USDA, Ervin L. Peterson, stated that the proposal that another agency, such as the CE do the engineering and construction of upstream dams for the SCS was not practical.

5. Comments by the Corps of Engineers on cost sharing

General Person made available to this staff a memorandum on the position the CE took with regard to cost sharing for Public Law 566 projects. The CE concluded in the memorandum that it was consistent with the legislative guide in reclamation law for the BOB, in the interest of uniformity in cost sharing, to prescribe a non-Federal contribution for land enhancement benefits in flood-control projects regardless of the agencies administering them. The corps pointed out that if it is now held that local contributions because of land enhancement benefits cannot be required for flood prevention projects under Public Law 566, as amended, such contributions should not be required for works under the flood-control laws which produce this same type benefit.

6. Comments by the Bureau of the Budget (BOB)

Mr. Robert E. Merriam, Assistant Director, BOB, stated the BOB had not submitted certain SCS watershed plans to Congress because of questions raised by CE as to cost sharing. He stated that CE's comments raised legitimate questions, that nothing ulterior was involved on the part of CE, and that the BOB had been trying to reconcile USDA and CE viewpoints. He stated that the BOB is preparing recommendatoins it expects to make to Congress concerning uniform methods of establishing cost sharing for land enhancement in water resources projects.

7. Observations by this staff

In summarizing the question of cooperation between the USDA and the CE, it appears to this staff that the principal area of conflict between these agencies on water resources projects centers on "cost sharing for land enhancement." The CE presents the viewpoint that under the regulations of BOB Circular A–47, by which the CE views projects, provisions must be made for cost sharing for land enhancement. It is in this vein that the CE has commented in 1957 on certain Public Law 566 work plans prepared by the SCS. The viewpoint of the USDA is that under Public Law 566 there can be no cost sharing for land enhancement as the act states that any part of the construction cost applicable to flood prevention and features relating thereto shall be borne by the Federal Government.

The BOB has held projects up in order to reconcile the CE and USDA viewpoints.

It seems inconsistent that two Federal agencies, one (CE) working downstream principally, the other (USDA) working upstream, both working on water-resources projects, but on a different scale, both obligated to cooperate with one another, should operate under different rules concerning cost sharing for land enhancement.

This staff suggests that the committee may desire to request the BOB to expedite its study on cost sharing in order that appropriate congressional attention might be given to the formulation of uniform methods for establishing cost sharing for land enhancement in all water-resources projects.

C. BUREAU OF RECLAMATION, DEPARTMENT OF THE INTERIOR

Individuals of the BR advised that the small-watershed program of the USDA to date had not created any substantial problems with the BR. However, they were of the opinion that as more small-watershed projects are developed the question of effect on dowstream surface flow will become more acute. This question is under study by USDA and BR at the present time.

D. FISH AND WILDLIFE SERVICE, DEPARTMENT OF THE INTERIOR

An individual of the Fish and Wildlife Service stated his Service has had little difficulty with Public Law 566 projects except in the "pothole" country of Minnesota and North Dakota. In these areas, Fish and Wildlife Service is of the opinion that some of the projects will drain or make it possible for landowners to drain many of these "potholes" which are necessary in the breeding and raising of wild ducks.

The Fish and Wildlife Service has made a detailed study of the watershed project on the 10-Mile Creek in Minnesota, and claims to have explored numerous possibilities in an attempt to derive a wildlife plan compatible with the proposed watershed program. The conclusion reached is that no such plan is possible as long as the primary feature includes drainage facilities. Because of this divergence of views between the local people and the Fish and Wildlife interests no work plan has been finalized.

The SCS Administrator stated that attempts are made to develop watershed projects compatible with the desires of Fish and Wildlife Service and at the same time be acceptable to local organizations.

VI. COORDINATION OF SERVICES WITHIN UNITED STATES DEPARTMENT OF AGRICULTURE

A. AGRICULTURE CONSERVATION PROGRAM SERVICE (ACPS)

Mr. Paul M. Koger, Administrator, and Mr. Fred G. Ritchie, Deputy Administrator, ACPS, jointly stated that the agricultural conservation program and the

watershed programs complement one another and that there have been no problems concerning cooperation and coordination between the ACPS and the SCS.

B. FARMERS' HOME ADMINISTRATION (FHA)

Public Law 566 authorizes the Secretary of USDA to make loans to local organizations to finance the local share of costs of carrying out works of improvement. The Congress in fiscal year 1958 appropriated $1,500,000 for these loans. This provision of the act is administered by FHA. No loans have been made to date. FHA regulations for loans were not completed until November 20, 1957.

C. FEDERAL EXTENSION SERVICE (FES)

An official of FES stated there are no problems between SCS and FES concerning the watershed protection and flood prevention programs. He pointed out that the majority of soil conservation districts throughout the Nation have been formed at the instigation of the county extension service agents.

An official of SCS stated that the formation of soil-conservation districts and subdistricts for the purpose of sponsoring watershed districts is extremely difficult in Missouri because of the opposition by the dean of the college of agriculture and the director of extension service, both of the University of Missouri.

A representative of the college of agriculture and a representative of the extension service, both expressed the view that the extension service was furnishing all the necessary technical advice farmers needed to carry out conservation measures and they did not see the need for another agency. They also stated that from what they had seen of the Blackwater River watershed (pilot project) in Missouri, they did not believe that SCS was doing a complete job in advising the farmers on balanced farm management, which they considered essential to a complete conservation program. Dean Longwell said he saw little evidence of land treatment on Blackwater River watershed.

SCS information reveals land treatment measures on Blackwater River watershed were retarded due to drought conditions from 1953 to 1956.

D. FOREST SERVICE (FS)

In cooperation with the SCS and other agencies of the USDA the FS takes part in surveys, planning, and the installation of works of improvement for watershed protection and flood prevention. The staff learned there is an administrative problem concerning whether the FS or SCS is to carry out certain phases of woodland measures in watersheds. A USDA official stated that the FS expects to reach an early solution to this problem. This problem has not, according to the official, affected the work that the FS and SCS are carrying out at the field level.

I. Directive

The committee, by directive dated July 5, 1957, instructed that an inquiry be made into the conduct of the watershed protection and flood prevention programs of the Department of Agriculture, with special attention to the results obtained from investigations, surveys, and planning. This directive was supplemented by a memorandum dated September 25, 1957, which requested the investigation cover the matter of extent of cooperation of the Corps of Engineers with the Department of Agriculture in carrying out the broad watershed program of the Federal Government, and also to look into the matter of coordination between the various agencies of the Department of Agriculture in this program, including the Forest Service, the Soil Conservation Service, the Extension Service, and the Agricultural Conservation Program Service.

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II. Scope of Inquiry

This inquiry concerns the three watershed protection and flood prevention programs presently being administered by the Soil Conservation Service (SCS) of the United States Department of Agriculture (USDA). These programs which have been authorized for the purpose of carrying out works of improvement to reduce floodwater, sediment, and erosion damage and prevent floods are (1) The 11 authorized areas, designated in the Flood Control Act of 1944, (2) the pilot watershed program, and (3) the program under the Watershed Protection and Flood Prevention Act, Public Law 566, 83d Congress.

Primary attention was directed during this inquiry to the conduct of the program under Public Law 566 inasmuch as this act is the authority for the Secretary of USDA to cooperate with States and local organizations in all future watershed protection and flood prevention work, outside of the 11 authorized areas and the pilot watersheds.

Particular attention has been given the matters of interest as set forth in the directive and supplemental memorandum and these matters will be found under the captions "Investigations, Surveys, and Planning—Public Law 566," "Cooperation Between United States Department of Agriculture and Other Federal Agencies," and "Coordination of Services Within the United States Department of Agriculture."

The following persons and organizations were contacted in connection with this inquiry:

At United States Department of Agriculture:

1. Ervin L. Peterson, Assistant Secretary, USDA, and certain administrators of services of the USDA.
2. Approximately 15 key administrative employees of USDA, Washington, D. C.
3. Staff members visited 15 State offices of SCS and contacted key employees.

Other contacts:

1. Brig. Gen. J. L. Person, Assistant Chief of Engineers for Civil Works, Corps of Engineers, United States Army.
2. Robert E. Merriam, Assistant Director, Bureau of the Budget.
3. Newcomb B. Bennett, Chief of Project Development, Bureau of Reclamation, United States Department of the Interior.
4. George Tomlinson, Assistant Chief of Project Development, Bureau of Reclamation, United States Department of the Interior.
5. Dr. Franklin S. Henika, Fish and Wildlife Service, United States Department of the Interior.
6. Nolen J. Fuqua, president, National Association of Soil Conservation Districts, Duncan, Okla.
7. Charles G. Butler, director, land and water use, American Farm Bureau Federation, Washington, D. C.
8. Matt Triggs, assistant legislative director, American Farm Bureau Federation, Washington, D. C.
9. Milton F. Lunch, legislative analyst, National Society of Professional Engineers, Washington, D. C.

10. J. H. Longwell, dean of the College of Agriculture, University of Missouri.

11. J. W. Burch, director of agricultural extension service, University of Missouri.

III. Review of Soil Conservation Service, United States Department of Agriculture, Watershed Programs

A. Orcanization of soil conservation service for watershed protection and flood control

The three watershed-protection and flood-control programs of the USDA are administered by the SCS, a service of that Department. These programs require various types of specialists found within SCS, such as engineers, economists, hydrologists, geologists, etc., and as these specialists are needed they are called upon for technical assistance. Other services of the USDA, such as the Forest Service (FS), are also called upon for assistance when needed.

The watershed-protection and flood-control programs are only part of the work administered by SCS and there is no specific number of SCS employees engaged in watershed-protection and flood-control work but rather each employee, both in Washington, D. C., and in the field, keeps a record of his time spent on the various programs and budgets for these programs are charged accordingly.

The SCS Administrator has 3 Assistant Administrators, 1 of whom, the Assistant Administrator for Field Services, has responsibility for the Planning Division and the Engineering Division, which divisions have the major part of the work of the watershed-protection and flood-control programs. In addition to the Engineering Division in Washington, D. C., there are six engineering and watershed planning units located in various parts of the country which report directly to the Engineering Division of SCS in Washington, D. C., and are considered arms of the Washington office. The Planning Division is responsible for all planning in SCS and has a separate Watershed Planning Section. The Engineering Division is responsible for the technical aspect of the programs.

SCS has an office in each State (except Rhode Island, which is combined with Connecticut) and the Territories of Alaska, Hawaii, and Puerto Rico, headed by a State conservationist or Territorial conservationist, who reports directly to the SCS Administrator in Washington, D. C. Under the State conservationist are the area conservationists and the work-unit conservationists. Each soil-conservation district (SCD) in the State has a work-unit conservationist who contacts the local farmers and provides them with technical assistance on conservation measures.

SCS has established work plan parties to plan Public Law 566 projects and pilot watershed program projects. In addition, separate work plan parties have been established for the 11 authorized areas designated in the Flood Control Act of 1944. Work-plan parties report directly to the State conservationist except in 13 States where there has been sufficient work to appoint an assistant State conservationist to handle watershed programs.

B. THE 11 AUTHORIZED AREAS—FLOOD CONTROL ACT OF 1944

The Flood Control Act of 1944 adopted and authorized works of improvement for runoff and waterflow retardation and soil-erosion prevention in 11 river basins to be performed by the USDA. The 11 areas designated are the Los Angeles River Basin, Calif.; Santa Ynez River watershed, California; Trinity River Basin, Tex.; Little Tallahatchie River watershed, Mississippi; Yazoo River watershed, Mississippi; Coosa River watershed, Georgia; Little Sioux watershed, Iowa; Potomac River watershed, Maryland, Virginia, West Virginia, and Pennsylvania; Buffalo Creek watershed, New York; Colorado River watershed, Texas; and Washita River watershed, Oklahoma and Texas. These 11 watersheds cover an estimated 30,103,960 acres. The estimated cost to the United States, in 1944, for the works of improvement in the 11 watersheds was calculated by the USDA to be $87,782,000.

The work originally contemplated to be performed in this program was mainly that of land-treatment measures, with some necessary structural measures in specified river basins, as set forth in the House documents referred to in the act. The first money appropriated under this act was made available in 1947.

In the USDA appropriation for the fiscal year ending June 30, 1951, the USDA was authorized to spend certain amounts of money for gully control, floodwater detention, and floodway structures. This authority to build flood-retarding structures in the 11 authorized areas has been continued in subsequent years in the various agriculture appropriation acts.

Since the passage of the Flood Control Act of 1944, the estimated cost to the Federal Government has risen from $87,782,000 to $288,463,396, an increase of 228.6 percent.

Staff inquiry of the Soil Conservation Service, United States Department of Agriculture, reveals that the rise in estimated costs of the 11 authorized watersheds was due to (1) increased costs due to changes in prices between the 1944 authorization and 1954 cost indexes from the Engineering News Record magazine, and (2) changes in estimated costs due to planned structural measures, which structural measures were not included in the 1944 authorization. It is noted that the 1944 figure of $87,782,000 was the estimated cost primarily of land-treatment measures based on survey reports contained in House documents referred to in the act. Authorizations for the additional structural measures have been included in the subsequent agricultural appropriation acts.

The following table summarizes the reasons for the increase in costs:

The 11 authorized watersheds summary of cost estimates

Flood Control Act of 1944, authorization (original estimated cost)		$87,782,000
Additional authorizations:		
Flood Control Act of 1946	$1,842,400	
Flood Control Act of 1950	1,158,500	
		3,000,900
(*a*) Total authorized original estimated costs		90,782,900
(*b*) Increased costs due to changes in prices between the 1944 authorization and 1954 cost indexes from the Engineering News Record magazine		102,548,784
(*c*) Changes in estimated costs due to planned structural measures		95,131,712
(*d*) Estimated total costs to United States (1954 prices)		288,463,396

The present estimate is based on the experience and study of SCS in some of the subwatersheds of the authorized river basins. Plans have not been made of all the subwatersheds in the authorized basins and, therefore, estimates of cost are only a projection to the entire area of experiences and studies to date. The reliability of the present estimate will depend a great deal on whether the methods presently being used will be continued or be made more complex in coming years. It is also noted that the $288,463,396 estimate is based on a 1954 price level.

The following table sets forth the SCS estimates for each of the 11 authorized watersheds:

Flood prevention—11 authorized watersheds works of improvement, total program—(FS and SCS) (1954 prices)

Watershed	Original estimated cost to United States (1944)	Present estimated cost to United States	Amount obligated to June 30, 1957	Estimate of remaining cost to United States July 1, 1957	Estimated percent completed June 30, 1957	Estimated years to complete after July 1, 1957 [1]
Buffalo Creek, N. Y.	$739,000	$4,671,594	$2,551,302	$2,120,292	54.6	5.2
Colorado (Middle), Texas	2,693,000	29,870,697	4,024,700	25,845,997	13.5	15.9
Coosa, Ga.	1,233,000	8,147,053	1,980,907	6,166,146	24.3	9.7
Little Sioux, Iowa	4,280,000	25,568,552	8,088,644	17,479,908	31.6	24.9
Little Tallahatchie, Miss.	4,221,000	14,297,289	4,765,901	9,531,388	33.3	10.4
Los Angeles, Calif.	8,380,000	19,350,496	8,273,760	11,076,736	42.7	9.8
Potomac, Md., Pa., Va., and W. Va.	859,000	15,510,070	1,637,652	13,872,418	10.5	20.8
Santa Ynez, Calif.	434,000	3,791,276	1,786,075	2,005,201	47.1	11.2
Trinity, Tex.	32,000,000	80,274,576	14,518,668	65,755,908	18.0	23.4
Washita, Okla.	11,243,000	47,642,429	12,917,589	34,724,840	27.1	11.8
Yazoo, Miss.	21,700,000	39,339,364	8,189,922	31,149,442	20.8	15.5
Subtotal	87,782,000	288,463,396	68,735,120	219,728,276	23.8	15.9
Emergencies			1,049,957			
Total	87,782,000	288,463,396	69,785,077	219,728,276		

[1] At fiscal year 1953 appropriation rate.

The following table presents the cost estimates for each of the 11 authorized watersheds, showing the amount of increase due to increased cost levels and the portion resulting from program changes:

The 11 authorized areas—Flood Control Act of 1944—Comparison of cost estimates

Watersheds	Total authorized original estimated costs (A)	Increased costs due to changes in prices between the 1944 authorization and 1954 cost indexes from the Engineering News Record magazine (B)	Changes in estimated costs due to planned structural measures (C)	Estimated total costs to United States (1954 prices) (D)
Buffalo Creek, N. Y.	[1] $2,581,400	$3,242,741	−$1,152,547	$4,671,594
Colorado (Middle), Texas	2,693,000	3,338,509	23,839,188	29,870,697
Coosa, Ga.	1,233,000	1,515,574	5,398,479	8,147,053
Little Sioux, Iowa	4,280,000	5,471,186	15,817,366	25,568,552
Little Tallahatchie, Miss.	4,221,000	4,317,817	5,758,472	14,297,289
Los Angeles, Calif.	8,380,000	13,124,194	−2,153,698	[2] 19,350,496
Potomac, Md., Va., and W. Va.	859,000	927,419	13,723,651	15,510,070
Santa Ynez, Calif.	[3] 1,592,500	787,175	1,411,601	[3] 3,791,276
Trinity, Tex.	32,000,000	39,652,208	8,622,368	80,274,576
Washita, Okla.	11,243,000	13,937,936	22,461,493	47,642,429
Yazoo, Miss.	21,700,000	16,234,025	1,405,339	39,339,364
Total	[4] 90,782,900	102,548,784	95,131,712	288,463,396

[1] Includes $1,842,400 authorized by Flood Control Act of 1946.
[2] Based on program review made by field offices of Forest Service and Soil Conservation Service.
[3] Includes $1,158,500 authorized by Flood Control Act of 1950, sec. 217.
[4] $90,782,900 less items (1) and (3) is $87,782,000 which is the amount of the original estimated cost of the 11 authorized areas in the Flood Control Act of 1944.

Officials of the Department of Agriculture have furnished the following explanatory statements regarding the above schedule:

Buffalo Creek, N. Y.—The reduction in the estimated total Federal cost of Buffalo Creek shown in the above table for the modified program, at 1954 prices has been brought about by the refinement of estimates of required measures and costs. These changes in estimates have occurred as detailed subwatershed work plans have been developed and planned measures installed in the watershed.

Los Angeles, Calif.—The reduction in the estimated total Federal cost of the Los Angeles shown in the above table for this modified program at 1954 prices has been brought about by deletion of planned floodways. These measures were originally planned for farm land that has since been subdivided for city lots.

Santa Ynez, Calif.—The estimated increase in the total Federal cost of $1,411,601 for the Santa Ynez modified program at 1954 prices is for additional structural measures. These measures are planned by the Forest Service for intensified fire protection principally on Federal land. The installation of these additional measures were authorized in the Agricultural Appropriations Act for the fiscal year 1956.

Review surveys were undertaken under authority of the Flood Control Act of 1936, as amended and supplemented in accordance with review resolutions adopted by the House Committee on Public Works. These surveys resulted in the development of the modified programs. These programs include cost estimates for gully control, floodwater detention, and floodway structures not included in the original survey reports. The reports on the modified program surveys have been used to guide the administration of the programs carried out in the authorized watersheds.

As of June 30, 1957, there has been completed in the 11 authorized areas the following structural measures:

Floodwater retarding structures	number	455
Stabilization and sediment control structures and silt and debris basins	do	6,750
Outlet construction	miles	11
Grassed waterways	acres	2,032
Channel stabilization and channel improvements	miles	1,111
Diversion construction	do	726
Levees and dikes	do	30
Channels excavated	do	19
Roadside erosion control	do	2,544

C. THE PILOT WATERSHED PROGRAM

The pilot watershed program, inaugurated in 1954, authorized 62 watershed projects, of which 7 have since been terminated, to demonstrate what could be accomplished in the way of soil conservation and flood control by means of land treatment and necessary structural measures. The original estimated total Federal cost in 1954 for the 62 pilot watersheds was $28,706,000. The most recent estimate made by SCS, in February 1957, of the total Federal cost for the remaining 54 pilot watersheds is $35,097,627, an increase of 22.6 percent. SCS has stated the increase in the total estimated cost is due both to increase in prices and changes in scope of the program in accordance with desires of local organizations.

In the pilot watershed program local organizations are being required to assume the same responsibilities, except for contracting, as Public Law 566 requires, and flood retarding structures are limited in capacity to that provided by Public Law 566.

The following is a résumé of funds appropriated and funds obligated for the pilot watershed program:

	Funds appropriated	Net funds available [1]	Funds obligated	Unobligated funds
Fiscal year 1954	$5,000,000	$5,000,000	$4,317,282	$682,718
Fiscal year 1955	5,500,000	6,182,718	4,914,132	1,268,586
Fiscal year 1956	7,000,000	8,268,586	7,553,781	714,805
Fiscal year 1957	7,700,000	8,414,805	4,793,450	[2] 3,621,355
Total through fiscal year 1957	25,200,000		21,578,645	
Fiscal year 1958	5,138,000	7,860,782		
Total	30,338,000			

[1] Includes funds carried forward from previous year.
[2] $898,573 of the $3,621,355 unobligated balance at the end of fiscal year 1957 has been transferred to Public Law 566 works of improvement.

There has been completed in the pilot watersheds as of the end of fiscal year 1957, the following structural measures:

Floodwater retarding structures	number	206
Stabilization and sediment control structures and silt and debris basins	number	1,736
Subwatershed waterway improvements	miles	59
Stream channel stabilization and improvements	do	157
Diversion construction	do	12
Roadside erosion control	do	296

It is estimated by SCS that the pilot watershed program will be completed on the following schedule:

Projects to be completed:	*Number*
In fiscal year 1958	31
In fiscal year 1959	4
In fiscal year 1960	9
In fiscal year 1961	10
Total	54
Projects completed to date	1
Projects terminated	7
Total	62

SCS has advised that the seven projects were terminated at the request of the local organizations, principally because of lack of interest and inability to obtain land, easements, and rights-of-way.

D. WATERSHED PROTECTION AND FLOOD PREVENTION ACT (PUBLIC LAW 566, 83D CONG., AS AMENDED)

Public Law 566, 83d Congress, as amended, hereinafter referred to as Public Law 566, authorizes the Secretary of Agriculture to cooperate with the States and local organizations for the purposes of planning and carrying out works of improvement for soil conservation, preventing flood damages, and furthering the conservation, development, utilization, and disposal of water. Generally, the procedure being followed in the implementation of this law is, first, local organizations make applications for assistance in solving watershed problems, which applications are sent to authorized State agencies or the governors of the States. The authorized State agencies or governors can approve or disapprove applications from local organizations and on approved applications can recommend planning priorities. Although the priorities recommended by the State agencies or governors are not binding on the SCS Administrator, to date these recommendations have been followed. This procedure places the responsibility on the State agencies for selection of projects within a State.

The SCS State conservationist, upon receiving an approved application, provides technical personnel to make a field inspection of the watershed and prepare a preliminary field report concerning the watershed problems. If the field report indicates favorable criteria for a watershed project and when the State conservationist feels that the work plan party of the State has available time, he will recommend to the SCS Administrator that the application be approved for planning. The SCS Administrator will, if he agrees with the State conservationist's recommendation, formally approve the project for planning and so notify the State conservationist. Thereafter, the work plan party will begin making plans to solve the problems of the watershed. The local organization, at the time it makes application, may not know what measures may be necessary to alleviate their watershed problem, therefore, the work plan party formulates feasible works of improvement which are discussed with the local organization for their approval. The soil conservation measures deemed necessary in the watershed are determined by the technical staffs of SCS, FS, and other Federal and State agencies in cooperation with one another.

The installation of such conservation measures is carried out by the farmers in the watershed.

The work plan party estimates the costs and benefits of the watershed project and calculates a ratio between the average annual benefits and the average annual costs. Public Law 566 requires that in plans for works of improvement, benefits must exceed costs. When a tentative work plan has been formulated it is submitted for review to the Engineering and Watershed Planning Unit of SCS covering the particular State and also to SCS in Washington, D. C. During this time it is also informally reviewed with the local organization to determine if it is acceptable to them. After these reviews the final watershed work plan is evolved and an agreement is signed by the local organization in acceptance of the plan. A copy of the work plan is made available to the governor of the State with a request for review and comment and copies are sent to interested Federal agencies. Work plans not requiring the approval of committees of Congress can be approved by the SCS Administrator by signing an agreement with the local organization. Work plans requiring approval of committees of Congress are sent to the Bureau of the Budget (BOB) for transmittal to Congress.

After a project is approved for works of improvement on non-Federal land, the SCS enters into a project agreement with the sponsoring local organization and the contracting local organization, which project agreement obligates the Federal funds for constructing the works of improvement. The project agreement must specify, among other things, who is to furnish the designs, plans, and specifications. The local contracting organization advertises for bids on the work to be done and upon determination of the low qualified bidder and upon receiving approval from SCS, a contract is awarded. Although the contracting local organization is responsible for the construction of Public Law 566 projects, the SCS also has a responsibility as Federal funds are used and a Federal representative is designated by SCS for each work of improvement. He has the duty of protecting the Federal Government's interest and maintaining close working relations with the local contracting organization's representative. Payment for work completed is made by SCS to the local contracting organization, which in turn pays the contractor. Upon completion of the works of improvement and after final inspection by SCS and the local contracting organization, final payment is made by SCS and the local sponsoring organization assumes responsibility for the operation and maintenance.

The following is a résumé of funds appropriated and funds obligated for Public Law 566 works of improvement:

	Funds appropriated	Net funds available [1]	Funds obligated	Unobligated funds
Fiscal year 1956	$1,244,000	$1,244,000	$16,338	$1,227,662
Fiscal year 1957	4,538,200	[2] 6,165,862	3,519,534	2,646,328
Total through fiscal year 1957	5,782,200		3,535,872	
Fiscal year 1958	13,162,000	[3] [4] 17,589,000		
Total	18,944,200			

[1] Includes funds unobligated in prior year.
[2] Includes $400,000 transferred from Public Law 566 project planning.
[3] Includes $1,780,672 transferred from Public Law 566 project planning and pilot watershed program.
[4] Estimated $11,000,000 will be carried forward to fiscal year 1959.

The SCS Budget and Finance Section has advised that approximately $11 million of the $17,589,000 available for Public Law 566 works of improvement will be carried forward into fiscal year 1959.

The inability to use available funds for works of improvement was discussed with the Planning Division of SCS as to the reasons for this situation. They pointed out that there are several reasons, one of the most important of which concerns Public Law 1018, 84th Congress.

Public Law 566, 83d Congress, as originally approved provided for cost sharing for direct identifiable benefits and the first work plans were made on that basis; however, money for works of improvement was not made available until fiscal year 1956 and no money was obligated for works of improvement under the original act. Public Law 1018 amending Public Law 566 was approved in August 1956 making the Federal Government entirely responsible for the cost of works of improvement applicable to flood prevention. This necessitated the revision of all plans having cost-sharing provisions made to that date. The first agreement with a local organization on a revised work plan was not reached until January 1957; consequently, no appreciable amount of money was obligated for works of improvement until the last half of fiscal year 1957.

Another reason for delay in obligating money concerned the mechanics of getting the larger Public Law 566 projects approved. The SCS Planning Division estimated that the first year Federal cost of 11 projects sent to the BOB was $1,856,504; however, money for these projects cannot be obligated until they are sent to Congress and receive committee approval.

It was also noted that Public Law 566 is a program to assist local organizations in their watershed problems and is not a federally controlled program. It was originally estimated from the experience SCS had in the 11 authorized areas and in the pilot watershed program that it would take approximately 12 months from the time a watershed is approved for planning to the time it was approved for operation. However, SCS's experience with the first 59 Public Law 566 projects approved for operation was that it took on the average of 17 months from planning to operation. Local organizations for a number of reasons have been unable to develop their watershed programs at a faster rate. In some cases they are unable to secure the necessary land, easements and rights-of-way or they are unable to satisfy the State conservationist that they are able to guarantee the proper operation and maintenance of the structures. In some cases the local organization did not realize the full potential of the Public Law 566 program and originally desired only a flood-control project; later they desired that a multipurpose structure be built which necessitated replanning the project. It was also stated that in some instances the local organization was unable to secure cooperation of landowners to apply the necessary land treatment measures.

The following schedule shows the status of construction of Public Law 566 projects as of October 31, 1957:

Number and type of projects	Status	Estimated construction cost
7 floodwater retarding structures	Completed	$176,314.66
14.6 miles drainage ditches	Completed (final cost)	64,507.02
Subtotal (6 projects completed)		240,821.68
30 floodwater retarding structures	Under construction	1,392,149.84
29.84 miles channel improvements	do	270,660.63
202 acres critical area stabilization 4 miles roadside erosion control 2.5 miles subwatershed waterways 20 acres seeding	do	13,724.05
Subtotal (21 projects under construction)		1,676,534.52
77,797 feet channel improvements	Invitation out for bids	94,260.00
6 floodwater retarding structures	do	280,328.00
Subtotal (3 projects invitation out for bids)		374,588.00
10 floodwater retarding structures	Project agreement signed	565,112.00
1 floodwater diversion and training dyke	do	29,598.00
11.38 miles channel improvements	do	63,035.00
Subtotal (6 project agreements signed)		657,745.00
Total, estimated construction cost		2,949,689.20
Estimated Federal share		2,763,118.36

NOTE.—The above summary covers work under 36 project agreements in 18 States.

IV. Investigations, Surveys and Planning—Public Law 566

A. APPLICATIONS

This staff has been advised by SCS personnel that as of November 1, 1957, 782 applications for assistance in watershed planning under Public Law 566 had been received in Washington, D. C., and they estimate various State agencies are processing approximately 220 applications which would bring the total number of applications to about 1,000. This staff was told by SCS personnel in the States visited that these applications have been received without direct solicitation by the SCS except in the State of Kentucky. In Kentucky, the former State conservationist made a special effort to obtain applications and as of November 1, 1957, there were 134 applications submitted by that State out of the total 782 received in Washington. The SCS Administrator stated he has watched the Kentucky situation carefully and is of the opinion that the State agency in Kentucky designated to approve applications under Public Law 566 made no attempt to distinguish between feasible and nonfeasible projects but merely sent everything it received on to Washington.

The functions and personnel requirements of the State agencies vary from State to State. In some States the authorized agencies are boards appointed by the governors and have authority to approve or disapprove applications and when more than one application has been approved, to set planning priorities. In other States the governor retains the authority to approve or disapprove Public Law 566 applications and the board or committee only acts in an advisory capacity. In most of the States the staff visited, the State conservationist acted in an advisory capacity to the authorized State agency. State conservationists advised that the State agencies rely on them to a great extent for advice concerning approval of applications and the establishing of priorities.

The SCS has advised the staff that there are 15 States in which the State conservationist by State law can be a full member of the State soil-conservation committee (board or commission). In 9 of these 15 State soil-conservation committees (boards or commissions) are the State agencies authorized to pass on Public Law 566 applications. In one State, the staff visited the State conservationist advised that he is a member of the governor's review committee and votes on the Public Law 566 applications to be submitted to the USDA.

This staff is of the opinion that, in order to prevent the appearance that the Federal Government is exercising authority on approval of Public Law 566 applications at the State level, State conservationists or any other Federal employees should not vote as members of the State agency, approving, disapproving, or setting priorities on Public Law 566 applications.

The SCS Administrator estimates that there are about 8,000 watersheds in the United States and its Territories which have some water-management problem, of which about 4,000 could be feasible projects under Public Law 566. He stated the National Association of Soil Conservation Districts estimate of about 16,000 watersheds with some water-management problem, which could be alleviated with assistance under Public Law 566, is, in his opinion, too high a figure.

The SCS Administrator stated that at the present rate the Public Law 566 program is developing he is of the opinion that in 5 or 6 years it will be a program requiring an appropriation of between $80 million and $100 million per year.

B. WORK PLANS

Since the passage of Public Law 566, in August 1954, the following funds have been appropriated and obligated for investigations, surveys, and planning:

	Funds appropriated	Net funds available [1]	Funds obligated	Unobligated funds
Fiscal year 1955	$1,710,000	$1,710,000	$1,299,515	$410,485
Fiscal year 1956	3,500,000	3,910,485	3,317,696	[2] 592,789
Fiscal year 1957	4,261,800	4,454,589	3,903,666	[3] 550,923
Total through fiscal year 1957	9,471,800		8,520,877	
Fiscal year 1958	[4] 4,700,000	4,700,000		
Total	14,171,800			

[1] Includes unobligated funds from prior year.
[2] $400,000 of the $592,789 transferred to Public Law 566 works of improvement.
[3] $550,923 transferred to Public Law 566 works of improvement.
[4] Increased by $29,000 from the $4,671,000 (amount appropriated) from appropriation for water-resources program.

From August 1954 to June 30, 1957, the following number of work plans were made:

Final work plans, approved for operation	42
Final work plans, not approved for operation	31
Tentative work plans, not approved for operation	21
Partially completed work plans (162) (equivalent to an estimated 68 completed work plans)	68
Total work plans	162

The average cost of each of the above 162 work plans is $52,598.

In addition to the above work plans, there are 11 plans on which

varying amounts of time were spent, but which have been terminated for such reasons as the plan did not have a favorable benefit-cost ratio, the local organization was not able to secure the land, easements, and rights-of-way, or there were water-rights difficulties.

The following suggestions for reducing the cost and time of preparing work plans for Public Law 566 projects have been received by this staff from SCS employees in the State offices:

1. Since the work plan is for the purpose of providing a general basis of understanding between the local organization and the SCS of what measures are to be undertaken, who is going to provide these measures, and an estimate of the cost thereof, it has been suggested that detailed engineering work can be reduced to a bare minimum in the planning stage and not be performed until the actual structural design is made.

2. Eliminate part of the narrative in the work plan, especially that set forth under investigations and analysis on such topics as hydraulic and hydrologic investigation, geologic investigation, and sedimentation investigation. It was stated that this narrative could be eliminated, since it was of a technical nature, and yet sufficient detail was not presented that would enable anyone reviewing these topics to evaluate properly the investigations in these fields.

3. Expedite the technical review of tentative work plans in the engineering and watershed-planning units and in the technical offices of SCS in Washington, D. C.

The above suggestions were discussed with the Planning Division of SCS in Washington, D. C., and they advised that, with regard to the first two suggestions, there has been criticism from the Corps of Engineers (CE), that more data should be included rather than less. The Planning Division also informed that the technical personnel involved did not desire to reduce the amount of information in a work plan or to perform less technical work in the making of a work plan because, as professional people, they did not feel justified in submitting a plan that was not complete in technical detail. With regard to expediting the technical review, the SCS Planning Division stated that this matter has been a delaying factor in the past when adequate personnel was not available, but it is believed that in the future the length of time for technical review will not be a factor in delaying projects.

The average number of days to review a tentative work plan by the Engineering Section of SCS in Washington, D. C., has been as follows: 1955, 15.8 days; 1956, 23.5 days; 1957 (through October), 24.3 days.

The SCS Administrator has stated that he is considering some type of division of work plans between the relatively simple and the more complex with the thought in mind that the State conservationists will be given authority to authorize planning in the smaller or less complicated projects. He stated that he believed such a move would tend to expedite the development of work plans for Public Law 566 projects.

During the course of this inquiry, the following examples of problems encountered in watershed planning, in preparing work plans, and in carrying out projects came to the attention of staff members:

1. It is not always possible to obtain the best structure sites, because easements are not available.

2. States are reluctant to use condemnation proceedings to obtain the best sites. One of the reasons advanced for this is that, once the buying of land, easements, and rights-of-way begins, all the landowners want to be paid for their land used for structure sites.

3. Landowners want the high-water lines of flood pools virtually staked out before they will grant easements or rights-of-way. This entails detailed engineering work at the planning stage.

4. If the geological nature of the structure sites is not already known then test borings must be made to insure that the sites are suitable for floodwater retarding structures.

5. Planning is held in abeyances as easements or rights-of-way cannot be asured by the local organizations as properties may be in estates; heirs are difficult to locate; owners simply are reluctant to sign any legal document such as easements; property owners have other than agricultural use in mind such as mineral rights and reluctance of owners to have floodwater pools on their land.

6. Generally speaking, there has been a lack of basic hydrological data in the small watershed areas which has tended to increase the probem of formulation of flood-control plans.

C. WORK PLAN PARTIES

The SCS has established work-plan parties in order to carry out the assistance to local organizations provided for by Public Law 566. The fully staffed work-plan party consists of a party leader, an engineer, a hydrologist, a geologist, an economist and aids as needed. Staff members have been advised that because it is difficult to obtain engineers and hydrologists the work-plan parties in some States are not fully staffed. On the other hand, the amount of work in certain States does not warrant a full staff and therefore funds are not allocated for additional personnel.

At the present time there are 42 work-plan parties financed by Federal funds assigned to Public Law 566 projects. These work-plan parties are assigned to specific States, usually 1 to a State except in those instances where the workload is not sufficient, a party may cover 2 States. The SCS Administrator has advised that the provisions of Public Law 566 apply equally to all the States and therefore distribution of the work-plan parties is on a State basis with the exceptions as explained above. He stated, however, that additional funds are made available for the hiring of aids to increase the work capacity of the parties in those States having the preponderance of projects.

Some States have taken action to increase the planning of Public Law 566 projects by such means as trust funds for the SCS and the creation of State parties. These States and the ways they are providing the assistance are:

Arkansas: State funds appropriated for second work-plan party.

California: State financing and staffing with State personnel of two work-plan parties.

Connecticut: Additional assistance received from State funds.

Kentucky: Second work-plan party, consisting of SCS personnel, financed by trust fund agreement with SCS.

Oklahoma: State funds are available for additional work-plan party.

Texas: Second work-plan party, consisting of SCS personnel, financed by trust fund agreement with SCS.

Mr. Nolen J. Fuqua, president of the National Association of Soil Conservation Districts, Duncan, Okla., stated that he was concerned about some of the States providing money to hire extra planning parties as he believed this acceleration of planning and engineering would cause many people to expect immediate action which may not be possible with the funds available for this program. He feared that this may cause some people to become disillusioned with the small watershed program.

The following schedule sets forth by States the applications received, number authorized for planning and the money allocated to the States for project investigation and planning:

State	Applications received in Washington as of Nov. 1, 1957	Applications approved for planning Nov. 1, 1957	Allocation of funds to State for planning, fiscal year 1958 (as of Nov. 7, 1957)
Alabama	13	7	$85,000
Arizona	10	1	[1] 1,000
Utah	22	6	85,000
Arkansas	32	8	100,000
California	25	8	124,550
Colorado	14	9	77,500
Connecticut	7	6	78,000
Delaware	3	2	([2])
Maryland	9	6	88,500
Florida	15	7	70,000
Georgia	45	10	103,400
Idaho	23	9	[3] 70,000
Nevada	7	5	30,000
Illinois	5	5	70,000
Indiana	9	8	77,500
Iowa	18	9	70,000
Kansas	11	8	85,000
Kentucky	134	9	101,000
Louisiana	13	6	77,500
Massachusetts	6	3	120,000
Michigan	3	3	60,000
Minnesota	20	4	70,000
Mississippi	13	6	80,000
Missouri	9	3	70,000
Montana	7	5	[4] 60,000
Wyoming	4	2	16,000
Nebraska	16	10	104,763
New Hampshire	5	4	[5] 70,000
Maine	0	0	440
New Jersey	5	4	50,000
New Mexico	23	10	68,500
New York	5	5	70,000
North Carolina	16	8	71,176
North Dakota	32	10	102,000
Ohio	6	3	60,000
Oklahoma	35	9	100,000
Oregon	9	6	70,000
Pennsylvania	6	5	70,000
South Carolina	12	6	77,500
South Dakota	8	6	85,000
Tennessee	6	6	85,980
Texas	67	21	100,000
Vermont	9	2	44,060
Virginia	9	5	77,500
Washington	19	9	77,500
West Virginia	10	6	65,051
Wisconsin	5	5	45,844
Hawaii	2	1	1,000
Puerto Rico	0	0	10,000
Total	782	296	3,376,264

[1] Work-plan party shared with Utah.
[2] Work-plan party shared with Maryland.
[3] Work-plan party shared with Nevada.
[4] Work-plan party shared with Wyoming.
[5] Work-plan party shared with Maine.

V. Cooperation Between United States Department of Agriculture and Other Federal Agencies

A. Interagency Committee on Water Resources and Cooperative Studies

There is, in the Federal Government's flood-control programs, dual jurisdiction within certain limits between the Department of Defense and the USDA and, in some western areas, the Department of the Interior. There are also a number of separate commissions and authorities concerned with flood control, but the above three departments share the major Federal responsibility in this matter. For the Department of Defense, the Civil Works Branch of the Corps of Engineers (CE) is the operating agency, and for the USDA the SCS has the major responsibility. In those areas where the Department of the Interior operates, the Bureau of Reclamation (BR) may have flood-control features built into its projects.

With three Federal agencies operating under separate statutes but in the same field of activity and often in the same geographic area, it is easily understood why differences arise as to planning and policy.

On May 26, 1954, with approval of the President, the Federal agencies with an interest in water problems formed the Interagency Committee on Water Resources (ICWR) to replace the Federal Interagency River Basin Committee. The Federal agencies that are members of the ICWR are the Department of the Interior, Department of Agriculture, Department of the Army, Federal Power Commission, and the Department of Health, Education, and Welfare. Associate members are the Department of Commerce and the Department of Labor. Listed as observers are Gen. J. S. Bragdon, special assistant for public-works planning, Executive Office of the President, and E. Fenton Shepard, Bureau of the Budget.

The purpose of the ICWR is to provide improved facilities and procedures for the coordination of the policies, programs, and activities of the members in the field of water and related land resources investigation, planning, construction, operation, and maintenance; to provide means by which conflicts may be resolved; and to provide procedures for coordination of their interests with those of other Federal agencies in the water and related land resources field.

The various departments in ICWR are represented by assistant secretaries and, in the case of the Federal Power Commission, one of the Commissioners. The organization of the ICWR provides for rotating the chairmanship among the various member agencies. At the present time Mr. Ervin L. Peterson, Assistant Secretary, USDA, is Chairman.

The ICWR has established subcommittees for the study of evaluation standards, hydrology, sedimentation, and so forth, and in addition, has isued charters to the following field committees: Arkansas-White-Red Basins Interagency Committee, the Columbia Basin Interagency Committee, the Missouri Basin Interagency Committee, the Northeastern Resources Committee, and the Pacific Southwest Interagency Committee.

Since the formation of the ICWR in May of 1954, there have been 16 meetings held as of June 11, 1957. A résumé of the ICWR minutes shows that the principal matters under discussion were those brought

to its attention by either the technical subcommittees or the river basin committees.

An official of USDA advised staff members that he did not feel that the ICWR was able to settle any of the disputes that have arisen between the USDA and the CE on flood-control matters, as the power of the ICWR is purely advisory.

At the time of the staff's inquiry, the CE and USDA were making or preparing to make joint studies in the Delaware River Basin, the Potomac River Basin, Cape Fear River, Mississippi River and tributaries, Pappio (or Pappillion) Creek, Omaha, Nebr., and the Des Moines River above Red Rock site. The SCS appropriation for the fiscal year 1958 provided $1 million for such joint studies.

B. THE CORPS OF ENGINEERS—DEPARTMENT OF THE ARMY

Public Law 566 requires that any plan requiring an estimated Federal contribution to construction costs in excess of $250,000 or containing any structure having a total capacity in excess of 2,500 acre-feet shall be submitted to the Secretary of the Army for his views and recommendations at least 30 days prior to transmission of the plan to Congress through the President. The CE is the reviewing agency for the Department of the Army.

1. National Association of Soil Conservation Districts (NASCD)

The NASCD in its publication, the Tuesday Letter, makes the following comments on this matter:

On August 6, 1957:

> The United States Army Corps of Engineers continues to fight our small watershed program. All of the fine promises of cooperation from General Itschner and his aides appear to be so many honeyed words. Here's the latest record of their slowdown tactics. The amendments to the Watershed Act passed by Congress last year reduced from 60 to 30 days the time allowed for review of our watershed work plans by the corps. We asked the Soil Conservation Service last Friday about progress in approval of plans. They reported that 16 plans have been submitted to the corps for review this year. The corps has waited from 34 to 110 days before submitting comments—average time 60 days. Budget Bureau won't send a plan to Congress until the corps comments. If the corps comments are critical—and most of them have been—SCS is required to prepare a detailed answer which causes another delay. * * *

On September 3, 1957:

> WATERSHED WORK
>
> * * * I am proud to announce to you that for the most part we have had cooperation. I regret to state there is room for improvement in the attitude of the United States Army Corps of Engineers toward our watershed program. For some reason, they do not see fit to go along. There is evidence that indicates the corps continues to fight our program of watershed development and that no doubt they would like to see it destroyed.
>
> I was questioned from the floor as to whether I had reference to the corps not living up to the laws passed by Congress or to their blackmailing of Congressmen. I told them I was speaking about the delay that occurred this year by the corps holding up watershed projects so long that they did not reach Congress in time for approval before they adjourned. I told them that I couldn't see how some people in high places in Washington could put up with these shady tactics, and that I could only describe it as pure bureaucratic greediness on the part of the corps with the Budget Bureau working with them * * *

Mr. Nolen J. Fuqua, president of the NASCD, Duncan, Okla., was interviewed by staff members concerning the above statements. He

stated that to his knowledge governmental agencies having an interest in the watershed protection and flood prevention programs of the USDA have cooperated in the carrying out of programs, with the exception of the CE. He stated that the "evidence" he refers to, in the statements appearing in the Tuesday Letter of September 3, 1957, goes back to the time Congress had under consideration passage of Public Law 566 and Public Law 1018 when the CE opposed these statutes. He said more recently the CE is taking so long to comment on projects that he fears this delaying will cause the local people to become disgruntled with the program and eventually such stalling will kill the Watershed Protection and Flood Prevention Act.

Mr. Fuqua stated that on September 27, 1957, he wrote to Brig. Gen. J. L. Person, Assistant Chief of Engineers for Civil Works, as follows:

I am receiving many questions from our soil conservation district supervisors and watershed sponsors about the delay we are having in getting our watershed projects approved. This prompts me to ask you to give me answers to a few frank questions in order that I might explain to our people the position of the Corps of Engineers on the following subjects.

Under the amendments to Public Law 566 enacted last year, the Corps of Engineers was allowed 30 days to comment on a small watershed plan sent to you for review by the Department of Agriculture. We would like to have a clear, concise statement as to the cause of the delay in submitting comments on the watershed plans during this year. Also, will you explain what we may expect in the future.

We understand that failure of the Bureau of the Budget to submit some of the recent watershed plans to Congress resulted in some confusing comments on your part relative to your cost sharing for land enhancement, flood prevention, and drainage in compliance with Budget Bureau Circular A–47. As you know, certain provisions of A–47 cannot be followed under Public Law 566. I would like to have a statement as to what your future policy will be in raising the cost-sharing issue on watershed plans.

The old rumors regarding your desire to take over the engineering part of our small watershed program have recently become disturbing. Would you please give us a clear-cut statement of your position in this matter?

General Person in reply to Mr. Fuqua on October 2, 1957, wrote as follows:

I have your letter of September 27, in which you ask certain questions concerning the relationship of the Corps of Engineers to the program of small watershed projects authorized by Public Law 566, as amended. I shall try to answer them in the order in which they were raised in your letter.

First, I should say that General Itschner and I were very much disturbed by the fact that our comments on work plans were submitted last year on an average of 65 days after we received them. We sincerely regret this delay, and have taken steps to expedite comments on future work plans. We should have acted more promptly, and I offer the following comments not as an alibi, but as an example of some of the factors which led to the delay. It is necessary, of course, that the field review be accomplished by our field agencies, our district engineers. The mechanics of receiving the work plans, writing letters of instruction to undertake the review, and getting them delivered by mail, were time consuming. I believe that we have this problem under control. We have asked the Department of Agriculture to arrange for work plans to be furnished our district engineers at the same time they are submitted to Washington, and have instructed our district engineers to proceed with their review immediately upon receipt and to furnish comments thereon without further specific requests from this Office. A copy of these instructions is enclosed for your information.

Another factor bearing upon the delay was the fact that the cost-sharing provisions of certain work plans differed from the provisions which we would have established under the provisions of Bureau of the Budget Circular No. A–47. This raised a serious policy question, and after considerable study (which was time consuming) we concluded that we would not be performing our duty if we failed to point out this discrepancy and to suggest that similar programs should be accomplished under similar cost-sharing provisions. This problem is

currently under consideration by higher authority, and, therefore, it should not be necessary to raise it in commenting on future work plans.

With the elimination of the delaying factors mentioned above, we should be able to improve greatly on the time required to develop our final comments. Although 30 days is a very short period, especially in view of the fact that it is general practice among the Federal agencies to allow 90 days for the review of reports other than those prepared under Public Law 566, I can assure you that we shall make every effort to meet the 30-day deadline. In this connection I am glad to say that for the last Public Law 566 report submitted to us for review we were able to transmit our comments before the expiration of the 30-day period. I think we have locked the barn door, and I agree that it was most unfortunate that the horse was stolen.

Your letter closes with the statement that the old rumors regarding our desire to take over the watershed program have recently become disturbing. I am sorry to hear that despite our efforts to make our position clear, such rumors continue to materialize. That position was stated by General Itschner in the testimony he presented on July 3, 1956, before the Senate Public Works Subcommittee considering the bill which later became Public Law 1018, and more fully in the statement he submitted to the subcommittee chairman on July 10. In effect General Itschner took the position that the local organizations themselves should assume responsibility for the engineering of Public Law 566 projects, and that they should retain professional engineers to design the structures, prepare the specifications, and supervise construction. There has been no change in the Chief of Engineers' position. It seems apparent, therefore, that we could not be attempting to "take over" the Public Law 566 program. Moreover, you have my personal assurance that we have not instigated any such attempt.

Mr. Fuqua stated to this staff that he believes the position the CE takes, that the local organizations should assume the engineering responsibilities, could not be sold to the local people and such a requirement would disrupt the program completely.

Mr. Fuqua was asked by staff members if he knew of any other situations or instances which he considered a lack of cooperation on the part of CE with USDA in the small watershed program. He stated that the only thing he knew was the CE's delay in commenting on the projects that had to go to Congress for approval. Mr. Fuqua stated that the program under Public Law 566 could be improved if efforts were made to speed up the review of the work plans by the CE.

2. American Farm Bureau Federation (AFBF)

At the AFBF, Washington, D. C., Mr. Charles C. Butler, director, land and water use, and Mr. Matt Triggs, assistant legislative director, furnished the following information to this staff in regard to Public Law 566:

They started that the AFBF has in the past and still supports the extention service concept of conservation, which in essence is that the States and the local people should have control of conservation assistance. They said the federation is opposed to Federal Government control of conservation assistance measures and did not desire to see the SCS of the USDA grow any larger. It was stated, however, that the federation strongly supports the small watershed program under Public Law 566 because it is believed that control of this program rests with the local people.

Messrs. Butler and Triggs stated that the CE in its review of Public Law 566 projects has assumed the function of approval or disapproval in the comments they make and they did not think this was the intent of the law. They were of the opinion that the purpose of the review of projects by the CE was for information reasons only. They also were of the opinion that the BOB, by holding up the transmittal of

these projects to Congress in an attempt to reconcile the differences between the CE and the USDA, had assumed the function of approving or disapproving the projects.

Messrs. Butler and Triggs stated it was their belief the delay in commenting on Public Law 566 projects by the CE was a deliberate attempt to slow down and hinder the small watershed program. This is the only specific act by the CE which they knew of, which they considered definitely as noncooperative.

They believed that the CE suggestion that the local organizations employ their own engineers, was made with the thought that if adopted, it would be another way to slow down the small watershed program and also they believed that the CE desired to take over the engineering functions of Public Law 566. These beliefs were based on testimony by the CE at hearings on Public Law 1018 which amended Public Law 566.

The American Farm Bureau Federation at its annual meeting in December 1956, adopted as one of its policies for 1957 a statement on flood-control and watershed programs which statement recommended that an increased proportion of the total funds appropriated for water utilization programs be provided for projects under Public Law 566.

3. *Comments by Corps of Engineers on its review of Public Law 566 projects*

Brig. Gen. J. L. Person, Assistant Chief of Engineers for Civil Works, CE, advised staff members that he and General Itschner were both highly embarrassed due to the delay of the CE in commenting on Public Law 566 projects this year. However, he disclaimed that the delay in commenting by the CE was an attempt to disrupt or sabotage the small watershed program.

General Person stated that the initial reviews of these projects are made in the appropriate district offices of the CE and the final reviews are performed by the CE at Washington, D. C. He said that the mechanics of sending the plans to the district offices and instructing them to review and comment were time-consuming but he believes this reason for delay has been remedied, as arrangements have been made with SCS to send project plans direct from the SCS State conservationists to the district offices of the CE. General Person stated that he is sure that in the future the CE will not delay in commenting on Public Law 566 projects. He made available a copy of an order dated August 26, 1957, which he sent to all district offices which reads as follows:

> SCS watershed protection handbook in section 4, paragraph H, sets forth field review procedure which indicates final work plans on which Department of Army comments are required will be transmitted by State conservationist to field offices of other Federal agencies concerned. In order to expedite review and department comments, for which only 30 days are allowed by law, request that district engineers proceed with review of work plans immediately upon receipt and furnish comments to this office as promptly as possible without further specific requests from this office. This refers only to work plans which under the law require approval by committees of Congress.

General Person made available to this staff a memorandum concerning the delay by CE in its review of Public Law 566 plans which is as follows:

TIME REQUIRED

Seventeen Public Law 566 plans were submitted to the Department of the Army for review during 1957 (up to October 21, 1957). The Department has submitted comments on all of these reports. The elapsed time between the receipt of each plan and the date of transmittal of comments is shown below. Also shown is the time required for the three stages of review:

Watershed	Days required for review in—			Total days
	Field	OCE	Department	
Lacamas Creek, Wash	21	7	7	35
Elm River, N. Dak	25	81	4	110
Abbotts Creek, N. C	25	70	4	99
Swan-Buffalo Creek, N. Dak	21	78	11	110
Sandy Creek, Okla	22	58	4	84
High Pine Creek, Ala	25	48	11	84
Mill Creek, Wis	24	50	13	87
Sulphur Creek, Tex	42	27	6	75
Diablo Arroyo, Tex	25	51	1	77
Caney Creek, Ark	22	40	7	69
Alamo Arroyo, Tex	25	35	7	67
Deep Creek, N. C	23	29	6	58
Knob Creek, Tex	33	27	1	61
Big Sandy Creek, Colo	27	27	1	55
Upper Bayou Nezpique, La	22	39	1	62
York Creek, Tex	24	22	1	47
Cowaselon Creek, N. Y	23	7	1	31

Examination of this table will show:

(*a*) That it took about 25 days for the review of a plan by the district and division officers of the Corps of Engineers.

(*b*) That the time required for review in the Office of the Chief of Engineers averaged somewhat more than 2 months for the first 6 plans (excepting the plan for Lacamas Creek which is a revision of a plan previously reviewed) while the last 6 plans required about 1 month, on the average.

(*c*) That the time required by the Office of the Secretary averaged about 1 week for the earlier reports and was reduced to 1 day for the later ones.

REASONS FOR EXCEEDING 30-DAY PERIOD

Field review

The review of reports by the district and division offices required about 25 days on the average for the reason that the Department of Agriculture did not furnish the final work plans direct to field offices for review; although in some cases field offices of the corps had worked with the SCS during formative stages of the work plans. Under ICWR procedures, which all Federal agencies (including the Department of Agriculture) had earlier agreed to follow, reports are to be submitted for review at field level 60 days before their transmittal to the Washington office of the agency which prepares them. Moreover, when transmitted to Washington the reports are to be accompanied by the comments of the field offices of reviewing agencies. Since the Department of Agriculture did not comply with this procedure, it was necessary to send copies of all plans to the district and division offices after they had been received by the Department of the Army at Washington level. It was then necessary for the field offices to make a thorough study of each of these plans and report their views to Washington as a basis for the departmental comments. The period of 25 days would normally be considered a very short time for such a review.

Review in Office of Chief of Engineers

The longest period of time involved in the review process was generally in the Office, Chief of Engineers. This was due basically to the necessity to determine whether comments should be made and what those comments should be. The plans submitted for review during 1957 were the first to be prepared under the 1956 amendments to Public Law 566. Hence it was not known at the outset what pattern these plans were likely to establish. It was necessary, therefore, to withhold comments until a sufficient number of plans had become available to enable this pattern to be discerned. After six plans had been reviewed

it became clear that if the Department of the Army were to submit comments on this new series of Public Law 566 proposals it could not avoid raising a very important question as to the cost-sharing policy upon which the reports are based, in addition to several technical questions. Consideration was then given to:

(*a*) The fact that in general the Soil Conservation Service had not accepted earlier comments and suggestions of the Department of the Army. This, of course, raised the question of whether the submission of further comments would serve any useful purpose.

(*b*) The fact that previous comments or suggestions on Public Law 566 plans had resulted in attacks upon the Corps of Engineers, and charges of obstruction to the program.

(*b*) The fact that the law does not require submission of comments, but simply gives the Secretary of the Army an opportunity to comment if he so desires.

It was also necessary to give consideration to:

(*a*) The fact that the Bureau of the Budget had in 1956 indicated that it wished to have the Department of the Army submit comments on all reports.

(*b*) The possibility that if comments were not submitted it might not be realized at higher levels in the executive and legislative branches that two Federal agencies were following different policies on cost-sharing for the same type of project, and that Public Law 566 proposals were not in accord with Bureau of the Budget Circular A–47.

(*c*) The widely accepted principle underlying the ICWR that it is a basic responsibility of all Federal agencies to help protect the public interests by offering suggestions for the improvement of proposed Federal projects.

(*d*) The possibility that the Department of the Army might later be justly criticized should a project upon which it had declined to comment subsequently fail or prove ineffective, or if it failed to call attention to a policy matter which later resulted in a serious problem.

After weighing the above points, the Department of the Army decided to offer minimum comments on the plans submitted to it in 1957.

After the decision had been reached to submit comments on the first group of reports received for review, the time required to process the remaining reports was greatly reduced. Except in unusual cases, however, it was found that it required about a month to review adequately a Public Law 566 proposal at OCE level. It is anticipated that this will be shortened if the Soil Conservation Service submits its final reports to the field offices of the Corps of Engineers at the same time these reports are sent to Washington for review. The Soil Conservation Service recently stated that it will follow this practice in the future. Instructions have been issued to field offices of the Corps of Engineers to review work plans immediately upon receipt without further instructions from this office.

Review within the Department

It will be seen from the foregoing table that the time required to review Public Law 566 plans in the Office of the Secretary of the Army has been reduced from about 1 week to 1 day. Hence this phase of the review does not constitute a problem. The earlier reports consumed a longer period because the pattern of the new series of reports was not at the outset clearly discernable.

4. Engineering aspects of Public Law 566 projects

General Person pointed out to the staff that under the Flood Control Act of 1936 the CE was given the responsibility for flood-control work on the rivers and streams while the USDA was given responsibility in certain river basins for carrying out those agriculture measures designed to reduce flooding. He stated that although the CE was not limited in its scope of operation, as a practical matter, work was started on the large rivers and tributaries which had caused disaster-type floods to many large cities. As the work progressed on the major rivers the CE has worked upstream to the smaller branches and in the meantime the USDA has been given authority to build flood-

retarding structures, thus creating a dual authority within certain limits.

The position of the CE with regard to the USDA coming into the engineering field was expressed by General Person in a speech he made before the American Farm Bureau Federation at Miami, Fla., on December 10, 1956, when he said:

> * * * The Congress has authorized two Federal agencies to control floods by means of reservoirs. The Department of Agriculture has authority, when requested to do so by local organizations, to plan and build reservoirs having a flood-control storage capacity of up to 5,000 acre-feet. The Corps of Engineers has authority to propose plans for reservoirs of any size. This duplication of authority in the engineering field is one of the problems created by the enactment of Public Law 566. I shall be perfectly frank with you: The Corps of Engineers did not consider it desirable for the Federal Government to establish another engineering agency, and we told the Congress this when Public Law 566 was under consideration. *But the Congress decided otherwise, and the Corps accepted the decision without question.* Since that time we have sought only to call attention to certain problems created by Public Law 566 and to do everything in our power to help solve those problems. I regret that some persons have interpreted this as opposition to the program. * * * [Italic supplied.]

The staff asked General Person the position of the CE with regard to the accusation by Nolen J. Fuqua, president of the National Association of Soil Conservation Districts, that the CE desired to take over the engineering aspects of the small watershed program. General Person stated that the Hoover Commission has recommended to Congress that the construction of headwater dams in the flood-control program of SCS be transferred to the CE. He stated that he understands this recommendation may be under study by higher authorities in the administration and declined to furnish any further specific information other than to point out that, in his reply to Nolen J. Fuqua on October 2, 1957, he stated:

> * * * It seems apparent, therefore, that we could not be attempting to "take over" the Public Law 566 program. Moreover, you have my personal assurance that we have not instigated any such attempt.

With regard to the statement by General Person concerning the Hoover Commission recommendation being studied by higher authority, it is to be noted that on August 12, 1957, Gen. J. S. Bragdon, Special Assistant for Public Works Planning, the White House, wrote to Mr. Ervin L. Peterson, Assistant Secretary USDA, as follows:

> DEAR MR. PETERSON: In a recent discussion on water-resources development the President reemphasized the need for bringing greater coordination and integration into such programs. With respect to upstream dams, he expressed the view that it should be possible for the Department of Agriculture to depend on the Corps of Engineers and the Bureau of Reclamation for much of their basic information and engineering analysis as well as actual construction. I have been specifically asked to follow up on this matter.
>
> It would be appreciated if you could meet with Assistant Secretary of the Army Short, Assistant Secretary of the Interior Aandahl, Assistant Director of the Bureau of the Budget Merriam, and me in my office on Monday, September 16, 1957, at 10 a. m., so that we may examine the relationships of the various aspects of the upsteam watershed-protection and flood-prevention activities of your Department with the related programs of other agencies and develop actions which will carry out the President's desires. I believe it would be most helpful if written statements could be available at this meeting for reference and further study, setting forth your views with suggested solutions on points where possible differences might exist, such as use of common basic data and interpretation thereof, application of the same engineering standards, use of

similar methods of measuring reservoir capacities, and uniform methods of cost sharing, as well as any other pertinent related matters.

Sincerely,

J. S. BRAGDON,
Special Assistant for Public Works Planning.

Assistant Secretary of USDA, Ervin L. Peterson, stated that he has been advised by the technical people in the USDA that in their opinion the proposal that another agency, such as the Corps of Engineers, do the engineering and construction of upstream dams was not practical, and he knows of no decision that such a proposal be carried out. In the statement of the USDA, provided pursuant to the suggestion contained in Gen. J. S. Bragdon's letter of August 12, 1957, the following paragraph appears in this regard:

The planning and development of complete watershed-protection projects involves many interrelated technical specialties including engineering, agronomy, soils, forestry, and the practical problems of farming. Any effort to split responsibilities on horizontal lines requiring that a single local organization would have to receive engineering assistance from one Federal agency, fish and wildlife assistance from another Federal agency, forestry assistance from another Federal agency, and erosion-control assistance from still another would greatly increase Federal costs, duplicate facilities, and represent an untenable arrangement from the standpoint of local organizations. It is for this reason that we have in the Department of Agriculture placed operating responsibility for the small watershed program in the Soil Conservation Service, while arranging for cooperation to the full extent available from other USDA agencies and, under appropriate memoranda of understanding, from Federal agencies in other departments, such as the Fish and Wildlife Service.

5. Comments by the Corps of Engineers on cost sharing

General Person also made available to this staff a memorandum explaining the position the CE took with regard to cost sharing for Public Law 566 projects which reads as follows:

By the enactment of Public Law 1018 in August 1956, the Congress amended Public Law 566 to provide assumption by the Federal Government of the total cost of construction "applicable to flood prevention." At the time this amendment was under consideration, one of the principal reasons given for proposing it was that it would bring the cost-sharing policy of Public Law 566 into harmony with the cost-sharing policy for similar projects undertaken by the Corps of Engineers pursuant to the flood control acts.

Subsequent to enactment of this amendment, watershed work plans have proposed that the Federal Government bear the entire construction cost of works for reducing flood damages, even when those works would also make possible the conversion of land to a higher (more intensive) use. In commenting upon such plans, the Department of the Army called attention to the fact that this would establish for the Public Law 566 program a cost-sharing policy differing from that followed by the Department of the Army in compliance with Bureau of the Budget Circular A–47. The Department of the Army, therefore, suggested that consideration be given to establishment of more uniform cost-sharing procedures. It could not ignore this policy problem because it appeared essential that Federal programs authorized by Congress to accomplish similar results be carried out on a uniform basis insofar as division of cost between Federal and non-Federal interests is concerned. The Department of the Army, however, has made it clear in its comments that it was not objecting to the carrying out of the proposed projects under Public Law 566.

The basic issue arises from the fact that reservoirs, channels, and other works constructed to eliminate, or abate, the inundation of flood plains can produce two types of benefits:

1. Benefits resulting from the elimination or reduction of flood damages.
2. Benefits resulting from the conversion of land to higher, or more intensive, uses.

The first type of benefit is what most people have in mind when they use the term "flood control benefit." The second type of benefit is illustrated when the construction of a project makes it possible to convert unimproved or wasteland

to valuable cropland. This reclamation type of benefit can result either from reducing the flood hazard or from improving drainage, and essentially the same result is obtained by irrigation of arid lands.

After the enactment of the Flood Control Act of 1936, many Federal flood-control projects were authorized and carried out by the Department of the Army without recognition of the difference between flood damage reduction benefit, and the benefit resulting from the more intensive use of land. However, as experience was gained in carrying out the flood-control program the Corps of Engineers began to recognize the two types of benefits, but only in its economic analyses of projects and not initially as a basis for cost sharing.

After the Flood Control Act of 1944 which changed the definition of flood control to include "major drainage" improvements, the Corps of Engineers recognized that such works might be entirely for reclamation of land, and that they would produce specific benefits to landowners. Accordingly, the corps by its own administrative action in 1947–48 began recommending to Congress that local cooperation be required because of increased land use or land enhancement in major drainage works under consideration for congressional authorization. This action was taken because it appeared that landowners should not be permitted to obtain windfall type benefits from expenditure of public funds without an appropriate sharing in cost of the improvements, and it was also an effort to obtain more uniformity with the cost-sharing provisions of reclamation law—the only legislative guide for cost sharing where land reclamation was involved.

Except for the trend described above, there was no general Federal policy prior to 1953 which required non-Federal interests to bear additional costs for a flood-control project because of land-enhancement benefits. Meanwhile the President's Water Resource Policy Commission of 1950 had studied this problem and this study was followed by a review of its findings by all interested agencies of the executive branch under the leadership of the Bureau of the Budget. During this review much attention was given to the fact that Congress had established a policy for cost sharing for land reclamation by irrigation under the reclamation by irrigation under the reclamation laws, but not for land reclamation by flood control under the flood-control laws. In an attempt to reconcile this disparity in policy the Bureau of the Budget issued Budget Circular A–47 on December 31, 1952. This circular provided that for flood-control projects non-Federal interests would bear 50 percent of the cost proportionate to the land-enhancement benefit.

Since issuance of Budget Circular A–47 the Department of the Army in its reports to the Congress on flood-control projects has recommended a non-Federal contribution to construction cost because of land enhancement, or the reclamation component of such projects. This requirement of Circular A–47 was accepted on the basis that reclamation law did provide a legal precedent for this action, even though there was no specific requirement for it in flood-control law. The Corps of Engineers, however, has had under consideration for some time the possibility of proposing to Congress a more uniform cost-sharing procedure which would not require a distinction between damage reduction and land-enhancement benefits and would in effect recognize the relative Federal versus non-Federal interest in both components.

Since the amendment of Public Law 566 in 1956 (by Public Law 1018) the Department of Agriculture has proceeded on the basis that the Federal Government must pay the full construction cost "applicable to flood prevention," without consideration of the difference between flood-damage reduction and land-enhancement benefits. In an opinion of July 25, 1957, the General Counsel of the Department of Agriculture ruled that under the language of Public Law 1018 the Secretary of Agriculture does not have authority to accept contributions from local organizations because of land-enhancement benefits. This opinion provides that when a project is defined as flood prevention the Federal Government must assume the full cost of construction.

The General Counsel ruled on the other hand that the Secretary of Agriculture is free to set a different cost-sharing policy for drainage. Thus there appears to be agreement that a non-Federal contribution to the construction cost of land-drainage improvements can be required. The remaining problem in this respect is that of defining land drainage as contrasted with flood control or flood prevention. A clear definition of this kind is complicated by the fact that in many situations the use of flat lands is hampered by a combination of flooding and lack of adequate natural drainage, and this situation exists generally in most drainage enterprises which have been undertaken previously by non-Federal interests. In its official definition the Department of Agriculture has apparently defined

works to alleviate this combined effect as flood prevention. This definition will lead to differences in cost-sharing arrangements since for similar combination flood-control and drainage projects the Department of the Army would be required to obtain a local contribution to construction under Budget Circular A–47.

The Corps of Engineers has made an initial examination of both Public Law 566 as amended, and the flood-control acts, and the legislative history of those acts. It finds nothing to indicate that Congress recognized the reclamation component or effect, and provided a legislative basis for non-Federal participation because of land enhancement, in either of those laws. The only legislative guide for cost sharing where this type of benefit is produced is to be found in the reclamation laws.

In view of the foregoing the Corps of Engineers concluded that it was consistent with the legislative guide in reclamation law for the Bureau of the Budget, in the interest of uniformity in cost sharing, to prescribe a non-Federal contribution in flood-control projects, regardless of the agency administering them, for land-enhancement benefits which are similar in effect to reclamation-type benefits. This was essentially the same conclusion reached and procedure followed previously by the corps in connection with major drainage improvements. The corps has also pointed out that if it is now held that local contributions because of land-enhancement benefits, or the reclamation component of projects, cannot be required for flood-prevention projects under Public Law 566 as amended, such contributions should not be required for works under the flood-control laws which produce this same type of benefit.

6. Comments by Bureaus of the Budget (BOB)

Mr. Robert E. Merriam, Assistant Director, BOB, stated that BOB had not submitted certain SCS watershed plans to the Congress in 1957 because of the comments by the CE which raised questions principally concerning cost-sharing provisions established by the BOB in its Circular A–47. Mr. Merriam felt that the CE comments raised legitimate questions and that there was nothing ulterior involved on the part of the CE. Furthermore, the BOB was not attempting in any manner to subvert the law by trying to reconcil USDA and CE viewpoints, but endeavoring to obtain uniformity insofar as possible in water resources projects.

7. Observations by this staff

In summarizing the question of cooperation between the USDA and the CE, it appears that the principal area of conflict between these agencies on water resources projects centers on "cost sharing for land enhancement." The CE presents the viewpoint that under regulations of BOB Circular A–47, by which the CE views projects, provisions must be made for cost sharing for land enhancement in Federal-financed water resources projects. It is in this vein that the CE has commented in 1957 on certain Public Law 566 work plans prepared by the SCS. The viewpoint of the USDA is that under Public Law 566 there can be no cost sharing for land enhancement as the act states that any part of the construction cost applicable to flood prevention and features relating thereto shall be borne by the Federal Government.

The BOB, through whom projects of a certain size must be transmitted to the Congress, has held projects up during 1957 in order to reconcile the CE and the USDA viewpoints.

It seems inconsistent that two Federal agencies, one (CE) working downstream principally, the other (USDA) working upstream, both working on water resources projects but on a different scale, both obligated to cooperate with one another, should operate under different rules concerning cost sharing for land enhancement.

This staff suggests that the committee may desire to request the BOB to expedite its study on cost sharing in order that appropriate congressional attention might be given to the formulation of uniform methods for establishing cost sharing for land enhancement in all water resources projects.

C. BUREAU OF RECLAMATION—DEPARTMENT OF THE INTERIOR

Two officials of the BR advised this staff that the small watershed program of the USDA at the present stage of development has not created any substantial problems or conflicts with the programs of the BR. However, one official said that as more small watersheds are developed as SCS projects, a problem that will develop is the effect of such projects on surface flow downstream. He said that while the extent to which these projects effect surface runoff is not completely known at this time, he is of the opinion that substantial amounts of water will be lost to downstream users. He said that at the present time the BR and the Agricultural Research Service (ARS) and SCS are making a joint study of stream flow and the effect of various measures on it.

One official pointed out that over a period of years the Federal Government is reimbursed for its investment in irrigation projects by the sale of water to users. A potential problem the two officials saw between the BR and SCS small watershed projects was in the matter of cost sharing or repayment for use of water where the two services had projects in the same vicinity. As an example of this type of problem, one official referred to Public Law 566 project in New Mexico known as the Dona Ana Arroyo. This project, he said, will generate a limited amount of water which, by means of a short channel below the dam, could easily be diverted for the use of persons now buying water from the BR. To the extent they get free water from a project built by the SCS, they will not have to pay for water from the BR project.

Public Law 566 provides that any plan involving an estimated Federal contribution to construction cost in excess of $250,000 or containing any structure having a total capacity in excess of 2,500 acre-feet which includes reclamation or irrigation works or which affects public or other lands or wildlife, be submitted to the Secretary of the Interior for his views and recommendations at least 30 days prior to transmission of the plan to Congress. The BR reviews these plans for the Secretary of the Interior.

One official stated that to date they have not had many Public Law 566 plans to review, but it was his opinion that the 30 days' time allowed was insufficient and permitted only a cursory and superficial review.

D. FISH AND WILDLIFE SERVICE—DEPARTMENT OF THE INTERIOR

On May 12, 1955, the Fish and Wildlife Service and SCS entered into a memorandum of understanding for the purpose of encouraging the coordination and integration of fish and wildlife conservation with works of improvement under Public Law 566. This memorandum provides that the Fish and Wildlife Service and State fish and game

agencies may make recommendations for fish and wildlife conservation during the planning stage of projects. The cost of measures incorporated in a plan to enhance fish and wildlife are not to be paid for from appropriations made under authority of Public Law 566. However, the cost of measures for mitigating damage to fish and wildlife resulting from works of improvement will be considered by SCS as proper costs of the project and such appropriate measures shall be included in the work plans by SCS.

Further, the Fish and Wildlife Service may make reconnaissance studies of proposed or approved Public Law 566 projects to determine the probable effect of the project on fish and wildlife and whether detailed studies are needed. These reconnaissance studies are to be paid for by Fish and Wildlife Service, and detailed studies will be paid for by SCS. The recommendations developed by these studies will be considered by SCS and will be presented to the local sponsors for their consideration.

An official of the Fish and Wildlife Service advised this staff that as of October 15, 1957, reconnaissance studies have been made on 157 approved projects and on 39 unapproved projects. He also made available figures which showed SCS had transferred $12,450 to Fish and Wildlife Service to make detailed studies on 5 watershed projects.

The official stated that Fish and Wildlife Service has had little difficulty with Public Law 566 projects, except in the pothole country of Minnesota and North Dakota. In these areas, Fish and Wildlife Service is of the opinion that some of the projects will drain or make it possible for landowners to drain many of these potholes, which are considered necessary in the breeding and raising of wild ducks.

The staff has been advised there is an application for a watershed project on the Ten Mile Creek in Minnesota which was received in Washington, D. C., in January 1955. A proposed plan for this area includes certain channel work that would result in draining certain wetlands which, according to the Fish and Wildlife Service, are the habitat of wild ducks and aquatic fur animals and the preservation of such wetlands is essential to the continuation of this type of wildlife. The Fish and Wildlife Service has made a detailed study of this area and claims to have explored numerous possibilities in an attempt to derive a wildlife plan compatible with the proposed watershed program. The conclusion reached by the Fish and Wildlife Service is that no such plan is possible as long as the primary feature of the watershed plan includes drainage facilities. Because of this divergence of views between the local people and the fish and wildlife interests, no work plan has been finalized.

An SCS official for North Dakota advised this staff that two Public Law 566 projects in that State, the Starkweather and the Edmore watersheds, probably would be held up because Fish and Wildlife Service had placed such a high value on the ducks raised in those watersheds and claimed the watershed projects would destroy a large part of the natural habitat of the ducks. He stated that in the Starkweather watershed the estimated average annual damages to be alleviated by the project are $515,278 and that the Fish and Wildlife Service estimated the value of the annual harvest of ducks raised in this watershed at $600,000. This was figured on an estimated 100,000 ducks harvested at $6 per duck.

The official stated that in the Edmore watershed the estimated average annual damage to be alleviated was $492,598, and Fish and Wildlife Service estimated the value of the annual harvest of ducks raised in this watershed was $300,000.

The official stated that the local sponsors of the Edmore watershed project already had the money in the bank to purchase easements and meet other obligations but would probably not get a watershed project until some settlement is reached with the Fish and Wildlife Service.

The SCS Administrator stated to this staff that the objection of the Fish and Wildlife Service to a watershed project is not tantamount to saying the project will not be approved by him or, if required by law, sent to Congress for approval. He stated the SCS policy is to consider the objections of the Fish and Wildlife Service and discuss them with the local organization, the wildlife and conservation agency of the State government and other interested agencies. Attempts are made to develop watershed projects as compatible with the desires of the Fish and Wildlife Service as possible and at the same time be acceptable to local organizations. He stated this approach has been taken in the case of the Ten Mile Creek project in Minnesota and he believes the best possible work plan has been made. He stated that he has recently talked to the assistant State conservationist for the State of Minnesota and the work plan for the Ten Mile Creek project will be sent to Washington soon and, upon determining the final plan, will send it to the BOB for transmittal to Congress. He stated that this work plan will be sent to the Secretary of the Interior for review and comment and at that time he will have an opportunity to comment upon any objections by the Fish and Wildlife Service to the plan.

VI. Coordination of Services Within United States Department of Agriculture

A. AGRICULTURAL CONSERVATION PROGRAM SERVICE (ACPS)

Mr. Paul M. Koger, Administrator, and Mr. Fred G. Ritchie, Deputy Administrator, ACPS, jointly stated to this staff that the agricultural conservation program and the watershed programs of the USDA complement one another and that there have been no problems concerning cooperation and coordination between ACPS and the SCS. They pointed out that the 1958 Agricultural Conservation Program National Bulletin, issued August 1957, in section 1101.903 entitled "County Funds" provides that:

> The State committee will allocate the funds available for conservation practices among the counties within the State consistent with the needs for enduring conservation in the counties within the State and will give particular consideration to the furtherance of watershed conservation programs sponsored by local people and organizations.

B. FARMERS' HOME ADMINISTRATION (FHA)

Section 8 of Public Law 566 authorizes the Secretary of USDA to make loans to local organizations to finance the local share of costs of carrying out works of improvement. These loans are to be for a period of not more than 50 years from the date when the principal

benefits of the works of improvement become available. For the fiscal year ending June 30, 1958, Congress appropriated $1,500,000 for loans to be made under this provision. This provision of the act has been given to the FHA for administration.

The staff was informed on October 7, 1957, by the FHA Administrator that to date no loans have been made pursuant to section 8 of Public Law 566. He stated that regulations are in process of promulgation but the question of the borrower exhausting other sources of credit has not been resolved and the question is now in the office of the Secretary of USDA.

On November 14, 1957 an FHA official stated that this question of the borrower exhausting other sources of credit still had not been resolved and no loans had been made. He stated that it is the FHA loan policy (mandatory under some acts) that the borrower must exhaust other sources of credit first. He said there is nothing in Public Law 566 on this matter and the legislative history is inconclusive.

On November 20, 1957 the official contacted a staff member and advised that the question of whether a borrower under Public Law 566 had to exhaust other sources of credit first had been resolved by the Secretary's office and the decision was reached that any organization wishing to borrow money under Public Law 566 must show that it is unable to borrow funds on reasonable terms and conditions from private or cooperative credit firms. The official stated that with the settlement of this matter that the USDA watershed loan policies and authorities were complete and were in process of being printed.

The official made available information which showed that a total of 14 inquiries have been received concerning loans under Public Law 566. Seven of the inquiries received did not specify the amount they wished to borrow but the other 7 stated they needed approximately a total of $3,170,000. Two of the inquiries were for $1,500,000 and $1,050,000, respectively. He further stated that inquiry was made by FHA into the requests of two of the applicants and it was found that they did not have legal authority to borrow money. In the one case, the borrower is now in the process of getting authority by a proposed State law. In the other case, FHA is studying the statutes so as to give the applicant advice on the formation of a new organization. In addition to the above inquiries, the official stated that a review of watershed work plans showed that there are 4 local organizations which may be expected to apply for loans in the estimated total amount of $428,300.

C. FEDERAL EXTENSION SERVICE (FES)

An official of FES advised this staff that, to his knowledge, there are no problems between the SCS and the FES concerning the watershed-protection and flood-prevention programs for the reason that their respective areas of activity do not conflict. He said the FES performs an educational service to farmers through the allocation of funds to agricultural colleges. He pointed out that the majority of soil-conservation districts (SCD's) throughout the Nation have been formed at the instigation of the county extension service agents who are cooperative employees, i. e., paid by State and Federal funds and who are supervised by the States.

The staff learned that, prior to World War II, there were a number of States in which the Extension Service was apposed to the formation of SCD's. However, since the close of World War II, this opposition has greatly decreased, and there are now approximately 2,770 SCD's. The only major agricultural State which has not formed an appreciable number of SCD's is the State of Missouri.

The official, when questioned about the relatively small number of SCD's in the State of Missouri, said Missouri has 33 SCD's out of a total of 114 counties, while other States in the same area have about 100 percent participation. He said, however, this doesn't mean that Missouri isn't conservation minded, as there are approximately 350 conservation contractors, trained by the University of Missouri Extension Service, who are able to design and implement conservation practices. These contractors charge the farmers fees and have a rigid quality of work The official said that, while there may be individuals in Missouri who oppose the organization of SCD's, he believes the College of Agriculture of the University of Missouri has taken the position that it isn't its responsibility to organize and promote SCD's.

An official of SCS stated that, in the State of Missouri, SCD's are formed under the State soil-district commission, which advises the Governor concerning the formation of SCD's. This commission consists of the dean of the College of Agriculture, the Director of the Extension Service, University of Missouri, and 3 farmers who are appointed by the Governor, making a total commission of 5 members. The official advised that the SCS State conservationist is an adviser to the commission, but has no vote.

The official said that, in about 1944, 10 or 12 SCD's were organized with the assistance of the Extension Service; however, subsequently, the Extension Service began to oppose the formation of SCD's. He stated that it has been reported to him that the reason the Extension Service no longer favors the formation of SCD's is because it doesn't have control of the funds appropriated for soil-conservation work, and, also, because the supervisors of the SCD's are too independent. The official stated the reason that has been advanced by the Extension Service is that the SCS does not follow provisions of (Missouri) senate bill No. 80, section 6, subparagraph (1), which provisions are:

> **To promote all reasonable measures for the saving of the soil within the soil district, and all such measures shall be in general agreement with those currently advocated by the College of Agriculture of the University of Missouri for saving the productive power of Missouri farmland.**

The official indicated that the formation of SCD subdistricts, now authorized under Missouri law, is extremely difficult in view of the opposition by the dean of the College of Agriculture and the director of the Extension Service, both of the University of Missouri. He said the farmers of a given county have to be extremely well organized to form an SCD or a subdistrict which, in turn, can sponsor watershed projects under Public Law 566.

A representative of the University of Missouri advised that the Extension Service of the University of Missouri has developed a balanced farm-management plan, and it is his opinion that the SCS neglects the matter of balanced farm management (the entire operation of a farm) which the college of agriculture considers as very important. He stated that there are some differences in practices

advocated by the Extension Service and the SCS which he did not consider too important, but he expressed the view that SCS was not doing a complete job, such as is advocated by the Extension Service.

The representative stated that the administration of the university Extension Service was not opposed to the SCS, per se, but he stated that the College of Agriculture of the University of Missouri was furnishing all the necessary information the farmers needed and, therefore, why have another agency? He then raised the question, "Does a Federal agency, such as SCS, or a State agency, such as the Extension Service, have a better concept of what is needed for the farms in the State of Missouri?"

With regard to watershed programs, the representative stated that he has visited the Blackwater River watershed (pilot project) in Missouri, which, he recalled, covered approximately 12,000 acres comprised of 118 farm units with an average unit of approximately 100 acres. He advises that, when he visited this project, there were 11 flood-control dams built, 1 was being constructed, and 12 more were to be finished by 1960. He stated the information he received was that the average cost of the dams was $10,000, or a total cost of the project of about $240,000. He stated that, when he viewed this project, not a foot of farmland was being protected and no attempt was made to set up farm management. The representative recalled that, of the 118 farm units, the owners of 57 of these units lived on the land and worked in factories in the Kansas City area.

The representative stated he was told SCS had agreements that land treatment was to be done by the landowners, but he saw little evidence of this. It was Dean Longwell's belief that this kind of money ($240,000) should not be spent without balanced, farm-management planning. He also stated that it was his opinion that, prior to the construction of works of improvement in any watershed project, the conservation work on the land should be done first and, when the project is completed, the direct beneficiaries of the project should pay for at least part of the benefits they receive; in other words, cost sharing for land enhancement.

Information received by the staff from the SCS regarding the Blackwater River watershed for the fiscal year 1957 reveals planned land-treatment work estimated to cost $280,000 has been started on the 12,613 acres involved; however, due to the continued drought from 1953 through 1956, the progress in land-treatment work has been retarded. Approximately 40 percent of needed land-treatment practices, as shown in the original work plan, have been applied according to the SCS.

With regard to the formation of SCD subdistricts, the representative stated that the Governor's advisory committee is not receiving enough detailed information for them to pass on the formation of such subdistricts, and, before such subdistricts will be considered in the future, it must be shown exactly what benefits are to accrue from the watershed project and what damages they profess will be alleviated and how alleviated. He advised that the SCS states it will furnish as much of this information as possible.

A representative of the Extension Service, University of Missouri, advised that the Extension Service carries out an active program of soil conservation with the farmers of Missouri, and he sees little need

for another service such as SCS. He stated that there is some difference in engineering recommendations between the Extension Service and the SCS which he did not think amounted to a great deal; however, he felt that some people get all worked up over these minor differences.

With regard to watershed programing, the representative stated that he visited the Blackwater River watershed, and he was distressed to see that which was recommended would not be a way for farmers to make a living on that particular type of land and on farms with an average acreage of approximately 100 or 105 acres. He stated that the people of that watershed were being advised by SCS to go into a grassland and beef-cattle program. It was the representative's opinion that a farmer could not make an adequate living by this type of farming on only a 100-acre farm. He stated that farms this small had to be cultivated intensively to produce an adequate income.

The representative made available the following results of a comparison of conservation practices between the Extension Service and the SCS in support of his contention that the Extension Service of the University of Missouri furnishes all the necessary technical help to the farmers of Missouri for soil conservation:

1954 soil conservation accomplishments reported by counties in northwestern Missouri

	County average	
	Extension Service—13 counties with county agents and associate agents full time on balanced farming [1]	Soil Conservation Service—10 counties with county agent and soil conservation district [2]
1. Tons limestone used	24,192	23,370
2. Tons fertilizer used	7,422	5,580
3. Acres green manure	13,369	13,673
4. Number terrace outlets built	50	34
5. Miles outlets properly treated and seeded	10	7
6. Miles terraces built	42	27.4
7. Number acres contoured	19,485	20,735
8. Number ponds built over 8 feet deep and fenced	83	81
9. Total acres sweet clover	7,335	4,635
10. Farmers renovating permanent pasture	168	181
11. Approximate acreage renovated	2,173	1,910
12. Number soil samples tested	1,261	1,133

[1] Andrew, Atchison, Carroll, Charlton, Grundy, Jackson, Lafayette, Livingston, Mercer, Platte, Saline, Cass, Cooper counties reporting.
[2] Caldwell, Clay, Daviess, DeKalb, Gentry, Harrison, Nodaway, Ray, Worth, Johnson counties reporting.

D. FOREST SERVICE (FS)

An official of the FS stated that the work of FS has not expanded under Public Law 566 as was originally expected due to the fact that sponsorship by local organizations of watershed programs has been lacking in areas containing the majority of land in forest cover. He was of the opinion that watershed interest has thus far been concentrated in those areas having a high proportion of cultivatable and pastureland on which the farmers are more interested in applying conservation practices. The official said it was understandable that farmers are more interested in treatment of their croplands and the

protection thereof by a watershed program rather than of forest lands.

According to the official, the problem in forestry that now exists is how to broaden treatment of non-Federal forest lands which are not included in Public Law 566 programs because of the lack of local interest which lack exists for two main reasons, (1) lack of population in the forest lands, and (2) inability to establish favorable benefit-cost ratios.

The work of the FS ties into watershed activities in several different ways. First, where national forests are located, the FS manages the Federal lands within the national forest. With respect to non-Federal forest lands, working through State forestry organizations, the FS assists private landowners in the protection and improvement of forest lands including watershed improvement work. In cooperation with the SCS and other agencies of the USDA the FS takes part in surveys, planning and the installation of works of improvement for watershed protection and flood prevention.

The staff learned that there is currently within the USDA an administrative problem concerning whether the FS or the SCS is to carry out certain phases of woodland measures in watersheds. An official of USDA has stated that this administrative problem is currently under review and he expects to reach an early solution. Further, that it involves the question of delineating which service will carry out the application of certain woodland measures in watersheds and has not affected the works that the FS and SCS are carrying out at the field level.

Department of Agriculture Comments on a Report to the Committee on Appropriations on Watershed Protection and Flood Prevention Programs

The following comments are referenced to the numbered items contained in the summary and table of contents, pages i–ix. We have, however, carefully reviewed and also include in our comments pertinent observations relating to the substantiating material contained in the body of the report under the same item numbers as those appearing in the summary. With respect to those items on which no comments are made, this Department is either in substantial agreement with the stated facts and conclusions, or the items represent views of persons or agencies outside the Department on which comments are not considered to be appropriate.

III–A. The term "flood control" is used in section III–A (p. 3) and elsewhere in the report to describe certain watershed activities administered by the Soil Conservation Service. Work in 11 watersheds originally was authorized by the Flood Control Act of 1944. However, funds to carry out works of improvement in these watersheds now are appropriated under a subitem for flood prevention in accordance with a designation by the House Subcommittee on Agricultural Appropriations. Further, Public Law 566, 83d Congress, is designated as the Watershed Protection and Flood Prevention Act. The term "flood prevention" is identified with watershed improvement work of the Department of Agriculture, while the term "flood control" is associated with water control works on rivers and other waterways constructed by the Department of the Army.

III–B. The estimated Federal cost of $87,782,000 for the 11 authorized flood-prevention watersheds in 1944 was for a program consisting primarily of land treatment measures. The land treatment program has been modified to a more comprehensive and effective one of land treatment and gully control, floodwater detention and floodway structures. The authority for modification of the program in the 11 authorized flood-prevention projects is cited in paragraph 3, page 5 of the report. The estimated Federal cost of $288,463,396, based on 1954 prices, results primarily from additional Federal costs for structural works of improvement included in the program since 1951.

IV–A. The report notes that in nine States SCS State conservationists are by State law members of State soil conservation committees (commissions or boards) which have been authorized by law or action of the governor to pass on Public Law 566 applications. In other cases the State conservationist is a voting member of the governor's advisory committee. Although these Federal officials have acted fully in accordance with State law or action of the State governor, the Department concurs in the opinion of your staff that "the appearance that the Federal Government is exercising authority on approval of Public Law 566 applications at the State level" should be avoided. The SCS Administrator is therefore directing State conservationists serving in this capacity to refrain henceforth from voting on approval or disapproval of any Public Law 566 applications.

IV–B. The staff has concluded that the average cost of preparing the equivalent of 162 work plans in fiscal years 1955, 1956, and 1957 has been $52,598. This figure represents the total obligated funds appropriated for planning, $8,520,877 divided by 162. It should be recognized, however, that the first 3 years of this program have included the period of personnel recruiting and training, development of operating procedures, an extensive public information effort, the replanning occasioned by enactment of Public Law 1018, 84th Congress, and the allotment of funds for basic data collection and analysis necessary for planning but which will be applicable to many future projects as well as the 162 referred to. The current costs attributable directly to planning individual watersheds is substantially less. The SCS goal for average planning cost is 25 cents per acre. The 782 watersheds for which assistance applications were submitted to Washington by November 1, 1957, averaged 77,000 acres. The indicated future average planning cost should approach $20,000 per watershed.

The Administrator, SCS, has already taken certain steps leading to simplification of planning procedures. For example, the requirement that tentative work plans will be reviewed in the Washington office has been eliminated for those plans that do not require approval by congressional committees. For this class of plans the State conservationist will no longer be required to follow the previously prescribed format in the presentation of narrative material and technical data in the plan. Additional means for further simplification of planning procedures are currently under study by the SCS staff.

IV–C. Non-Federal funds have been made available for watershed planning in several ways in a number of States. Arkansas, Kentucky, and Oklahoma have appropriated funds which have been

turned over to SCS under trust fund agreements to operate a second planning party. California has appropriated funds for recruiting and operating two State planning parties in cooperation with SCS. Various local organizations in Texas have made funds available under trust fund agreements in sufficient amounts for SCS to operate a second planning party in that State for about 2 years. In Connecticut a local organization has financed most of the cost of planning one watershed. In still other States substantial contributions in engineering and other services and facilities have been made available by State agencies and local organizations as part of the planning activity.

V–A. A distinction should be made between the cooperative surveys referred to in section V–A (p. 24) by the USDA and the Corps of Engineers (CE) in the basins of the Delaware River, Potomac River, Cape Fear River, lower Mississippi River and tributaries, and Des Moines River, and in the watershed of Pappio (or Pappillion) Creek.

In the case of the former, the surveys are being carried out under the authority of section 6 of Public Law 566. In the case of Pappio Creek and also in Obion Creek, Ky., the Corps of Engineers and local organizations, with assistance from the USDA, are jointly cooperating in developing separate but coordinated projects, those by local organizations and the USDA under section 3 of Public Law 566.

In addition to the river basins listed where section 6 cooperative surveys are underway by the USDA, such activities also are underway with the Department of the Interior in the upper Colorado River Basin, with the State of Kansas in the Kansas River Basin, and with the Corps of Engineers in the upper Mississippi River Basin and certain Great Lakes drainages. These activities, in addition to those listed in the report, are carried out within the $1 million provided in the appropriation for watershed protection for the fiscal year 1958 for surveys and investigations of water resources programs.

V–B–4. This item concerns the engineering aspects of the Public Law 566 program. Reference is made by the staff to the recommendations of the Hoover Commission. Recommendation No. 6 of the second Hoover Commission is as follows:

> No. 6. That the construction of headwater dams in the flood-control program of the Soil Conservation Service be transferred to the Corps of Engineers.

The Department of Agriculture is strongly opposed to this recommendation. It is contrary to that part of the Nation's water policy established by Congress last year in the enactment of the Watershed Protection and Flood Prevention Act (Public Law 566), and endorsed by the President.

The recommendation of the Commission and the background statements in its report dealing with general policy considerations and methods of flood control completely ignore the basic position of the Department, as follows:

> ***Water and land are interdependent.—Water and land are so closely related that their development, use, and conservation must be planned and carried out in proper relationship to each other.***

The Commission report fails to recognize that upstream detention structures must be integrated in place and time of installation with soil and water conservation measures applied on watershed lands. It

fails to recognize that engineering, agronomy, soils, forestry, and practical problems of farming are closely interrelated as applied in watershed protection; that flood and sediment damage reduction is only one of the interrelated benefits of watershed works of improvement; and that upstream dams must be planned with relation to other agricultural needs and are only one phase of construction that must be used in a sound watershed program.

The Commission made no reference to the policies and principles in the Watershed Protection and Flood Prevention Act (Public Law 566, 83d Cong.) which in itself established a new and important chapter in the Nation's water policy.

This act was passed to implement a special message to the Congress from President Eisenhower, dated July 31, 1953, in which he called attention to the need to strengthen conservation in our upstream watersheds and to minimize flood damage as an integral part of the Nation's total flood-control and water-use program and pointed out the tendency to neglect the serious waste involved in the loss of topsoil from the Nation's farms and the clogging of our streams and channels which results from erosion on the upper reaches of the small streams and tributaries of the Nation's rivers.

He stressed the importance of groups of farmers banded together in local organizations, such as soil conservation districts and watershed associations, taking the initiative, with the technical advice and guidance of Federal and State agencies in developing adequate plans for proper land use and resource improvement in watersheds throughout the Nation and expressed the belief that we should move ahead in the construction of works of improvement and the installation of land-treatment measures as rapidly as possible consistent with a sound overall fiscal program.

The bill which was introduced following this message and which became Public Law 566 placed jurisdiction over watershed protection and flood prevention works of improvement in the Department of Agriculture.

In opening the hearings on this legislation, Senator Aiken said:

> This bill was introduced August 1, 1953, at the request of the President. It relates to a matter which has been of increasing interest and concern in our country over a considerable period of years. It relates to the conservation of our soil and water resources and in some cases their restoration. It vitally concerns future generations and in my opinion it is one of the most important pieces of legislation which this Congress will have to consider.

The proposed assignment of responsibility contained in the Commission's recommendation was placed before the Congress and rejected by it when the watershed legislation was under consideration. Thus a definite policy position contrary to that recommended by the Commission was taken by the Congress.

The President in endorsing and signing Public Law 566 stated that:

> This legislation is significant because it establishes for the first time a nationwide program of conservation practices based on the concept that farms, streams, forests, and towns and cities are all interrelated parts of a watershed. It recognizes in practical terms that the upstream part of a watershed, as well as the downstream part, must be taken into our plans if we are to have the water that we vitally need, and if we are to solve with maximum effectiveness three of our most challenging problems—soil erosion, floods, and drought.

The Commission's recommendation, taken literally, can refer only to the completion of construction of headwater dams in 11 watersheds where work was authorized by the Flood Control Act of 1944 and in some 60 small pilot watersheds which were provided for in the 1954 Appropriation Act.

The construction of headwater dams in all other watersheds to be undertaken under the Watershed Protection and Flood Prevention Act is the responsibility of local organizations, except that construction on federally owned lands may be undertaken by the Federal land managing agency having responsibility for administration of the land upon which the structures may be built.

The Commission's statement appears to question the relative competence of the Department of Agriculture engineers in the field of watershed protection and flood prevention.

In dealing with problems of water on farms and forests from the top of the watershed to the lowest point on the stream, including the planning and construction of headwater dams, this Department has long worked cooperatively with farm people, with responsible local governments, and with State agencies. In the performance of its responsibilities, the Department has employed and used engineers. To meet its responsibilities, it will continue to need them. The field of agriculture is complex and requires engineering skills along with many others.

This broad experience of the Department raises a substantial and practical question as to whether any part of this experience or this function could be transferred without transferring all of it. Engineering is not a basis in itself on which organizational lines should be drawn. The impracticability of the Commission's recommendation is immediately apparent.

The Department believes that the separation of responsibility for headwater dam construction from other responsibilities involved in an integrated program of watershed protection and flood prevention would be unsatisfactory to cooperating local agencies and to the two Federal agencies involved. The Department believes that the Congress has defined rather well the limits of responsibility for participation in dam construction by the Department of Agriculture. Coordination of the upstream program with the programs of the Corps of Engineers and Bureau of Reclamation is developing in a satisfactory manner.

Your staff report (p. v) attributes to Assistant Secretary Ervin L. Peterson a statement—

> that the proposal that another agency, such as the CE do the engineering and construction of upstream dams for the SCS was not practical.

This is substantially in accord with the position of this Department as explained in a reply to a letter from Gen. J. S. Bragdon dated August 12, 1957, and quoted on pages 36–38 of your staff report. As a result of the request contained in General Bragdon's letter of August 12, 1957, a subcommittee of representatives of the Corps of Engineers, Department of the Interior, and this Department studied this question during the past several months.

On December 24, 1957, Gen. J. S. Bragdon transmitted to this Department a copy of a report unanimously agreed to by all the members of the subcommittee appointed to study the possibility of the Depart-

ment of Agriculture depending on the Corps of Engineers and the Bureau of Reclamation for much of its basic information and engineering analysis as well as actual construction in the prosecution of the watershed protection and flood prevention program. One of the conclusions of this report was that as the engineering staffs of the Corps of Engineers and the Bureau of Reclamation are usually fully occupied; they could not normally take on more work without hiring additional personnel.

At this time, a major part of the engineering services for approved watershed projects is provided by employees of this Department. Most of the local organizations that have sponsored watershed protection and flood-prevention projects neither have engineering staffs nor do they have boards of supervisors experienced in the selection and employment of competent engineers. Local organizations, such as soil-conservation districts, have customarily depended on technical services of agencies of this Department.

Experience to this date has revealed very few private engineers or engineering firms experienced in planning and designing the type and scale of improvements included in watershed projects. We believe, however, that the use of private engineering services can and must be expanded to meet the expected workload, even though we may expect that costs generally will be higher than for equivalent services provided by this Department.

To the extent that the Corps of Engineers and Bureau of Reclamation have engineering services that can be provided to this Department on a reimbursement basis equivalent to our experienced costs, we shall be happy to take advantage of these services.

For the reasons stated above, this Department continues to be strongly opposed to either executive or legislative action tending to segment the assistance provided under authority of Public Law 566, as amended, between departments of the Federal Government.

V–B–5. There is attached hereto a copy of the opinion dated July 25, 1957, of USDA General Counsel Robert L. Farrington on acceptance of contributions from local organizations toward construction cost of flood-prevention structures (attachment No. 1). In this opinion he advises that Public Law 566, as amended, prohibits the Secretary from accepting local contributions toward the construction cost of flood-prevention structures. He can accept such contributions toward the cost of structures for the "agricultural phases of the conservation, development, utilization, and disposal of water." Such structures may provide solely for irrigation and drainage. Some structures, however, provide for both flood prevention and drainage or irrigation. In the case of multiple-purpose structures, costs are first allocated between purposes such as flood prevention and drainage according to well-defined criteria contained in the SCS Watershed Protection Handbook, pertinent parts of which are attached (attachment No. 2: Prescribed procedure for allocating costs where multiple use is involved). After this allocation is made, local organizations are required to pay a part of the cost allocated to drainage (or irrigation) in "consideration of the direct identifiable benefits" from this purpose.

Land enhancement is a type of benefit that may stem from works of improvement for flood prevention or irrigation or drainage or other purpose. It is a type of benefit and not a purpose according to the

definition in Budget Bureau Circular A–47. Under the provisions of Public Law 566, as amended, it cannot be considered as a basis for either allocation of costs or cost-sharing.

This Department is opposed in principle to the use of land enhancement (or changed land use, intensification of land use, or restoration to former use) as a basis for Federal and non-Federal cost sharing. The benefits from prevention of flood losses to crops and property are just as real and tangible and can be identified just as precisely as can the so-called land-enhancement benefits. This Department supports the position that beneficiaries who can be directly identified should contribute in some equitable proportion to the cost of achieving the benefits regardless of whether they stem from flood control, drainage, or irrigation improvements. Beneficiaries from the prevention of flood losses should contribute proportionately the same as beneficiaries of land-enhancement gains. Beneficiaries from major reservoirs and levees on main-river floodplains should contribute in the same proportion as beneficiaries in upstream watersheds for the same kind of benefits. This Department is opposed to making any distinction between so-called local protection, flood control, or upstream watershed projects on the one hand, and major river-basin development projects on the other hand.

V–B–6, 7. This Department supports the position on cost-sharing stated in the Report by the Presidential Advisory Committee on Water Resources Policy transmitted by the President to the Congress on January 17, 1956. The Department believes that uniform cost sharing between different Federal programs should be provided by congressional enactment. In his budget message of January 13, 1958, the President stated that—

> In particular, there should be a uniform and consistent basis of local sharing of the costs on all projects involving flood control which produce identifiable benefits to local groups.

V–D. We do not agree with the indicated position of the Fish and Wildlife Service as expressed in the report. The Department of Agriculture is extremely interested in wildlife. In all of our conservation work, including watershed work, we give attention to the wildlife benefits that can be provided, but we think it unreasonable to ask any group of farm or ranch people to forego benefits which might accrue to them for the use of their own properties in order to provide wildlife benefits that accrue, as in this case, to everyone who enjoys hunting ducks. So the Department expects to continue to make its services available to farm people in this area, as in all other areas, to help them achieve the full conservation use of their properties, including drainage, where drainage is necessary to such an objective.

The Department does not intend to withhold any program help available through the expenditure of public funds in order to advance one use over other uses. Conservation everywhere must be carefully planned, approached in an organized and comprehensive manner on each parcel of land piece by piece, on each area, watershed by watershed. Every conservation interest should be recognized, but, again, time, place, circumstance, economic condition, the needs of the individual landowner or operator of the community and of the Nation will determine how the conservation activity will be organized and applied.

ATTACHMENT NO. 1

JULY 25, 1957.

To: Ervin L. Peterson, Assistant Secretary.
From: Robert L. Farrington, General Counsel.
Subject: Acceptance of contributions from local organizations toward construction cost of flood-prevention structures.

You have requested our opinion as to the authority of the Secretary of Agriculture under Public Law 566, 83d Congress, as amended by Public Law 1018, 84th Congress, to accept contributions from local organizations in the following circumstances:

> With respect to works of improvement for flood prevention and features relating thereto, is the Secretary authorized to accept contributions from local organizations for any part of the construction cost of such works of improvement that is applicable to the production of land enhancement benefits?

In our opinion the Secretary does not have authority to accept such contributions from local organizations.

Section 4, clause (2), of Public Law 566, as amended, provides in regard to the construction cost of structural works of improvement for flood prevention "* * * that any part of the construction cost (including engineering costs) applicable to flood prevention and features relating thereto shall be borne by the Federal Government and paid for by the Secretary out of funds appropriated for the purposes of this Act."

In an opinion to the Administrator, Soil Conservation Service, on August 21, 1956, we stated that the quoted provision of Public Law 566, by requiring the Federal Government to bear the entire construction cost of structural works of improvement applicable to flood prevention and features relating thereto, had the effect of prohibiting the Secretary from accepting monetary or service contributions therefor from local organizations. This prohibition would clearly apply to contributions from local organizations determined on the basis of land enhancement benefits resulting from flood-prevention structures, and the Secretary would not be permitted to accept such contributions.

The quoted provision of Public Law 566 is limited to the construction cost of works of improvement for flood prevention and features relating thereto, and would not prohibit the Secretary from requiring contributions from local organizations toward the construction cost of structures for purposes other than flood prevention, such as drainage and irrigation.

R. L. FARRINGTON.

ATTACHMENT NO. 2

SOIL CONSERVATION SERVICE

UNITED STATES DEPARTMENT OF AGRICULTURE

(Sec. 6, p. 9)

WATERSHED PROTECTION HANDBOOK

PRESCRIBED PROCEDURE FOR ALLOCATING COSTS WHERE MULTIPLE USE IS INVOLVED

C. Allocating costs to flood prevention and drainage

1. *Cost allocation for flood prevention and drainage channels when benefits are not separable.*—Where it is established that floodwater and drainage problems exist on the same lands within a watershed, it will be necessary, for cost-sharing determinations, to allocate the cost of the planned channel improvement to drainage and flood prevention. Under this condition, the steps required for allocating costs are:

(*a*) First alternative:

(1) Estimate the cost of a channel for drainage on the basis of the applicable drainage coefficient in consideration of climate, topography, land use, and soils for the area of wet land to be drained.

(2) Estimate the cost of a flood-prevention channel based on the capacity to handle the peak flow expected from the design storm.

(3) Design and estimate the cost of a multiple-purpose channel which will produce the same benefits as the single-purpose channels in (1) and (2). This may be the same channel as the channel in (2).

(4) Estimate the cost allocated to drainage by dividing the cost determined in (1) by the sum of the costs determined in (1) and (2) and multiplying by the cost determined in (3).

(5) Estimate the cost allocated to flood prevention by subtracting the cost allocated to drainage determined in (4) from the multiple-purpose cost determined in (3).

(*b*) Second alternative:

(1) Design and estimate the cost of the multiple-purpose channel.

(2) Determine the damage-reduction benefits that would accrue if the channel were designed for flood prevention alone.

(3) Determine the total benefits that will accrue to the multiple-purpose channel.

(4) Deduct the damage-reduction benefits from total benefits, (3)—(2), to determine the joint benefits from more intensive use of land (land enhancement).

(5) Allocate the total cost of the multiple-purpose channel to land enhancement and flood-damage reduction in the ratio of the benefits determined in (2) and (4).

(6) Allocate 50 percent of the joint land-enhancement costs found in (5) to flood prevention and the remainder to drainage (A–47 principle).

(7) The total flood-prevention cost is equal to the cost allocated to damage reduction plus 50 percent of the cost allocated to land enhancement.

2. *Allocating the cost of a part of a channel system serving a single purpose.*—The steps outlined in 1 above will not necessarily be involved for all channels included in a project planned for flood prevention and drainage. For example:

(*a*) That portion of the channel-improvement works which extends above the wet-land area would be allocated to flood prevention.

(*b*) The cost of main drainage ditches and group laterals which are not required or designed to carry outside water will be allocated to drainage.

APPENDIX

The following information was supplied in response to interrogation on page 44 of the hearings:

Preliminary summary of number of farmers carrying out conservation practices, amount of assistance for practices, and minimum value of farmer's "contribution," conservation reserve program, 1957 calendar year, by States [1]

State and region	Number of farmers earning practice payment [2] (1)	Total practice payment earned in 1957 (2)	Estimated minimum value of farmer's "contribution" to conservation reserve program practices [3] (3)
		Thousands	*Thousands*
Maine	411	$455	$114
New Hampshire	27	7	2
Vermont	88	19	5
Massachusetts	6	3	1
Rhode Island	0	0	0
Connecticut	3	1	[4]
New York	1,323	1,086	272
New Jersey	63	46	12
Pennsylvania	404	170	42
North Atlantic	2,325	1,787	447
Ohio	604	338	85
Indiana	405	259	65
Illinois	226	188	47
Michigan	1,177	643	161
Wisconsin	1,206	756	189
Minnesota	5,854	2,452	613
Iowa	903	378	95
Missouri	1,506	1,784	446
North Dakota	3,669	2,593	648
South Dakota	3,899	2,792	698
Nebraska	1,306	575	144
Kansas	2,356	1,147	287
North Central	23,111	13,905	3,476
Delaware	20	19	5
Maryland	168	110	27
Virginia	230	69	17
West Virginia	25	6	2
North Carolina	1,033	355	89
South Carolina	1,690	492	123
Georgia	2,741	1,244	311
Florida	782	471	118
South Atlantic	6,689	2,766	692
Kentucky	404	301	75
Tennessee	1,108	721	180
Alabama	1,367	489	122
Mississippi	908	474	119
Arkansas	1,046	549	137
Louisiana	332	75	19
Oklahoma	4,426	1,341	335
Texas	12,225	7,493	1,873
South central	21,816	11,444	2,861
Montana	403	286	72
Idaho	219	204	51
Wyoming	154	73	18
Colorado	1,043	443	111
New Mexico	2,233	1,493	373
Arizona	58	53	13
Utah	381	387	97
Nevada	1	[4]	[4]
Washington	143	124	31
Oregon	281	278	70
California	66	110	28
West	4,982	3,452	863
Total	58,923	33,354	8,339

[1] This summary is based on preliminary reports which are subject to revision.

[2] Number of farmers earning practice payments in 1957 under 1956 and 1957 contracts plus number earning practice payments in 1957 under 1958 contracts. There may be slight duplication in numbers in some States, but not to exceed 221 farmers nationally.

[3] Estimated on basis of 25 percent of col. 2.

[4] $500 or less.

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